



We fulfill dreams through the experiences of motorcycling by providing to motorcyclists and to the general public an expanding line of motorcycles, branded products and services in selected market segments.

HARLEY-DAVIDSON, INC. 3700 West Juneau Avenue, P. O. Box 653 Milwaukee, Wisconsin 53201-0653 www.harley-davidson.com



HARLEY-DAVIDSON, INC. 2005 Annual Report

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This LEGEND GROWS...



through the people who are passionate about it. It grows when those who love it are those who help it evolve, inspiring new ideas while staying true to the original. It passes from generation to generation and across the globe. This legend grows in the hearts of riders, the hands of employees and the trust of shareholders. *This is our story.*

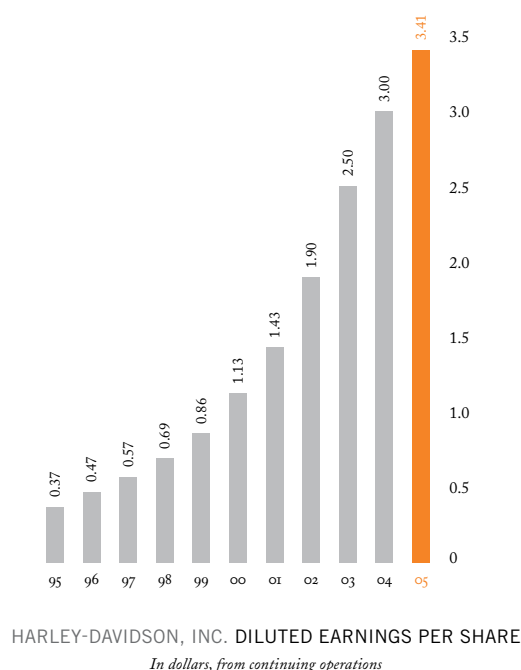




JIM ZIEMER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
HARLEY-DAVIDSON, INC.

This
LEGEND GROWS
through
PASSION
&
PURPOSE

DEAR FELLOW SHAREHOLDER: Harley-Davidson has thrived on its ability to see opportunity, to take on challenges, and to adapt to changing market needs and a changing world for more than a century. ■ It was true at the dawn of the Company, during America's transportation revolution, when dozens of startup motorcycle manufacturers were vying for a foothold in the market, and in the years that followed, as our young industry evolved from transportation to recreation. ■ It was true during the late 1970s and early 1980s, when external economic conditions, global competitors and our own internal problems nearly overcame us—or at those other times when we've hit smaller bumps in the road. ■ It was true during the 1990s and early 2000s, when our volume more than tripled in an extraordinary and unprecedented explosion of growth. ■ And it was true in 2005, as Harley-Davidson celebrated its 20th consecutive year of record revenue and earnings and continued its undisputed market leadership—as always amid a changing landscape. ■ Throughout our history, our passion for what we do, along with the sense of purpose that we bring to this business, have guided our success.



Today, more than ever, we are seizing the opportunity to attract new customers, go new places and grow our leading presence in the marketplace. With our strong array of products and services and those that are in the pipeline, our dealer network and our financial resources, and with the tremendous efforts and ingenuity of all of our employees, Harley-Davidson is in a great position for sustainable, long-term growth.

2005 RESULTS In 2005, Harley-Davidson consolidated revenue grew to \$5.34 billion, a 6.5% increase over 2004, while net income grew 7.8% to \$959.6 million. Diluted full-year earnings per share rose 13.7% to \$3.41 compared to 2004. We shipped 329,017 new Harley-Davidson motorcycles to dealerships globally.

Our dealers again retailed record numbers of new Harley-Davidson and Buell motorcycles. For the full year, worldwide retail sales of Harley-Davidson motorcycles grew 6.2% to 317,169 units and international retail sales grew 15.0% compared to 2004. Harley-Davidson Europe had an absolutely gangbuster year, with retail sales of Harley-Davidson motorcycles climbing 19.9% over the prior year.

Parts & Accessories revenue grew 4.4% to \$815.7 million in 2005. Revenue from General Merchandise, which includes MotorClothes® apparel and collectibles, totaled \$247.9 million, a 10.8% increase over 2004.

Revenue for Buell motorcycles was \$93.1 million in 2005, a 17.8% increase from 2004, on a 13.3% growth

in shipments. Buell motorcycles continued to have strong appeal in international markets, which accounted for more than half of the brand's 2005 retail volume. The Buell Ulysses™ adventure sportbike launched to broad acclaim and solid sales both in the U.S. and abroad and further established Buell's credentials as a leader in technological innovation.

Harley-Davidson Financial Services (HDFS) reported operating income of \$191.6 million, up 1.6% from the prior year. HDFS' market share of consumer new Harley-Davidson and Buell motorcycle loans grew to approximately 45% in 2005, compared to about 40% in 2004. These hard-won results demonstrate HDFS' ability to navigate the increasingly competitive consumer lending environment and aggressively manage the business for growth.

At year-end Harley-Davidson had over \$1 billion of cash and marketable securities on hand, even after increasing the Company's total dividend payout 45.7% to \$173.8 million for the year and repurchasing stock totaling \$1.05 billion. Cash is a powerful driver of our performance, enabling us to do many things that are the underpinnings of our growth. For example, many of our motorcycles are the result of our investment in product development over the last few years, including doubling the size of the Willie G. Davidson Product Development Center. This sound investment will continue to produce results for years to come as we aggressively bring new products to market.

SUSTAINABILITY One of the key stories for 2005—besides the numbers—was how Harley-Davidson continued to make the transition from operating in the unique, super-heated economy and selling environment that we experienced in the 1990s and early 2000s to one that is sustainable on an ongoing basis. And this was an important transition to make. Quite simply, the high levels of unmet consumer demand for our bikes that we experienced for years was no way to run a business for the long term.

I never met a customer who thanked me when he or she had to pay substantially over m.s.r.p. for a motorcycle, or when delivery of that motorcycle might take a year or longer.

Continuous growth cannot be sustained under those kinds of circumstances. And sustainability over the long haul is what we've been about as a company and as an investment, going all the way back to our IPO 20 years ago.

Some on Wall Street may have had an affinity for a

However, let's be clear. Harley-Davidson is a premium product and a premium brand. We're going to continue to run the business to protect the value of the brand by making sure that our motorcycle shipments to dealers are supported by retail growth. That's why we monitor the selling prices of new and used motorcycles so carefully. That's also why we reduced our production growth by 10,000 units in 2005. We took this precautionary step in the second quarter to maintain demand in excess of supply. We know that this action was absolutely the right thing to do to get the 2006 model year off to a great start.

RETAIL EXPERIENCES On the road ahead, the retail selling environment continues to grow in importance. I'm confident our dealer network is up to the challenge. Time after time over the years, Harley-Davidson dealers have adapted, expanded, invested and changed to meet the challenges of a growing, dynamic business.



THE ALL NEW 2006 DYNA FAMILY

The 2006 line of Harley-Davidson® motorcycles—36 models in all—is one of the strongest ever.

product scarcity model, but it made for understandably frustrated customers, some of whom undoubtedly went down the street to a competitor.

Walk into dealer showrooms today and you'll notice something different: they have new motorcycles in stock. It may come as an eye-opener to those who grew used to seeing dealerships largely devoid of new bikes (and who somehow viewed that as the proper order of things), but greater inventory is a planned result to help ensure that our dealers have bikes available when customers want to buy them.

We're hard at work with our dealers—already the best in the industry by far—to create the ultimate customer-friendly retail experience, attract entirely new audiences and make sure we take great care of the legions of existing customers.

How? Through products, services and customer experiences that are second to none. By widening our reputation as the undisputed owner of customization. By establishing and driving a product development cycle that has dramatically cut the time it takes to bring new motorcycles to market. And through MotorClothes

apparel, participation in a broad spectrum of events that keep us close to our customers and a whole host of other initiatives.

PRODUCT IMPACT The 2006 line of Harley-Davidson motorcycles is one of the strongest ever. We introduced seven new models, including the Street Bob™ and the Street Glide™, which have blazed new leadership trails in the custom category. We also brought a totally re-engineered family of Dyna motorcycles to market.

In fact, year-over-year retail sales of Harley-Davidson motorcycles both in the U.S. and internationally grew significantly faster in the second half of 2005 than in the first half. Customer excitement over the 2006 product line introduced in July undoubtedly had an impact on that result, as did our dealers' efforts to bring in customers.

In Europe, our strong performance is the result of a number of actions. Heading into 2005, we were benefiting

As we reflect on 2005, Harley-Davidson is strong and well-positioned for the road ahead. We've got great products (with more on the way), great people, great financial resources, and solid retail performance and growth prospects. And we have seasoned, creative leadership, including the addition in 2005 of Jim Haney as Vice President and Chief Information Officer; a new role for Jerry Wilke as Vice President of Customer Relationships and Motorcycle Product Planning; and the promotions of Fred Gates to General Manager, York Vehicle Operations and Jeff Merten to Managing Director, Asia Pacific and Latin America.

THIS LEGEND GROWS "Legend" is a label that's often used to describe Harley-Davidson. My first brush with this legend came at age eight when my family moved into a home in Harley-Davidson's Juneau Avenue neighborhood in Milwaukee. The Company's motorcycle

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fully from re-engineering our motorcycle supply pipeline, which provided better product selection and more timely availability. We stepped up our focus on products specifically suited to the European market. We increased our marketing investment. We continued to see the benefits of our move to subsidiary-based retail operations in a number of key European markets and the improved business capabilities of European dealers everywhere. These strategic initiatives and the results they are producing illustrate the rigor of our approach to international business.

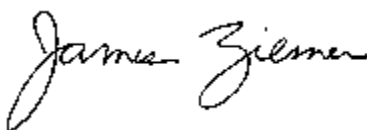
THREE CONSTANTS I believe there have been three constants in our success as a company: 1. Our passion for this business, for riding, and for relating to and being one with our customers; 2. Our sense of purpose—in other words, our focus on growing demand by offering great products and unique experiences; and 3. Operational Excellence—which is the continuous, relentless drive to eliminate waste in all aspects of our operations and to run Harley-Davidson better and more efficiently with each passing day.

And I believe these three things—being close to our customers, growth and Operational Excellence—hold the keys to the future.

test riders regularly went cruising past our house. One day, they stopped at a neighbor's home and gave me my first up-close-and-personal look. And for me, as for so many others, the legend grew from there. I had my first motorcycle ride at 15 and was hooked for life.

After working in many parts of this great company for more than 36 years—including manufacturing, engineering, Parts & Accessories, finance and accounting, serving as Chief Financial Officer for 14 years and, way back at the start, as a freight elevator operator in the Union—it is indeed a privilege for me, as Chief Executive Officer, to be able to help guide this legend to a great future.

Harley-Davidson has had quite a story over its 103 years. It's a story of constant change and challenge, passion and purpose. But the most exciting story is the one that continues to unfold each and every day, as we witness all of the varied and imaginative ways that this legend grows.



James Ziemer

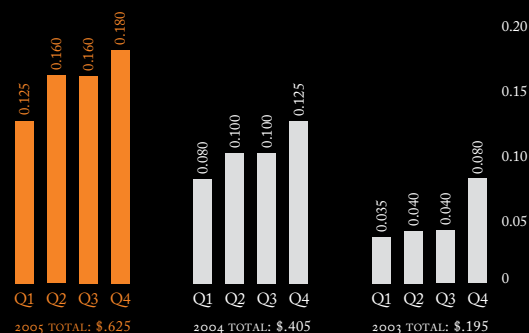
President and Chief Executive Officer, Harley-Davidson, Inc.

<i>In thousands except per share amounts</i>	2005	2004	2003	2002	2001
Income statement data:					
Net revenue	\$5,342,214	\$5,015,190	\$4,624,274	\$4,090,970	\$3,406,786
Cost of goods sold	3,301,715	3,115,655	2,958,708	2,673,129	2,253,815
Gross profit	2,040,499	1,899,535	1,665,566	1,417,841	1,152,971
Financial services income	331,618	305,262	279,459	211,500	181,545
Financial services expense	139,998	116,662	111,586	107,273	120,272
Operating income from financial services	191,620	188,600	167,873	104,227	61,273
Selling, administrative and engineering expense	762,108	726,644	684,175	639,366	551,743
Income from operations	1,470,011	1,361,491	1,149,264	882,702	662,501
Investment income, net	22,797	23,101	23,088	16,541	17,478
Other, net	(5,049)	(5,106)	(6,317)	(13,416)	(6,524)
Income before provision for income taxes	1,487,759	1,379,486	1,166,035	885,827	673,455
Provision for income taxes	528,155	489,720	405,107	305,610	235,709
Net income	\$ 959,604	\$ 889,766	\$ 760,928	\$ 580,217	\$ 437,746
Weighted-average common shares:					
Basic	280,303	295,008	302,271	302,297	302,506
Diluted	281,035	296,852	304,470	305,158	306,248
Earnings per common share:					
Basic	\$ 3.42	\$ 3.02	\$ 2.52	\$ 1.92	\$ 1.45
Diluted	\$ 3.41	\$ 3.00	\$ 2.50	\$ 1.90	\$ 1.43
Dividends paid per common share	\$.625	\$.405	\$.195	\$.135	\$.115
Balance sheet data:					
Working capital	\$2,272,125	\$2,510,490	\$2,087,056	\$1,354,486	\$1,052,006
Finance receivables held for sale	299,373	456,516	347,112	306,901	114,649
Finance receivables held for investment, net	1,943,224	1,655,784	1,390,737	1,138,679	921,107
Total assets	5,255,209	5,483,293	4,923,088	3,861,217	3,118,495
Current finance debt	204,973	495,441	324,305	382,579	217,051
Long-term finance debt	1,000,000	800,000	670,000	380,000	380,000
Total finance debt	1,204,973	1,295,441	994,305	762,579	597,051
Shareholders' equity	\$3,083,605	\$3,218,471	\$2,957,692	\$2,232,915	\$1,756,283

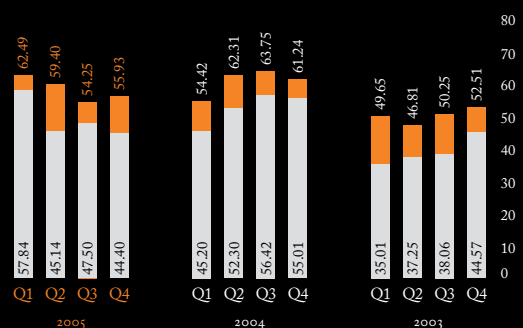
Note: Certain prior year amounts have been reclassified to conform to the current year presentation.

As of February 21, 2006, there were 88,499 shareholders of record of Harley-Davidson, Inc. common stock.

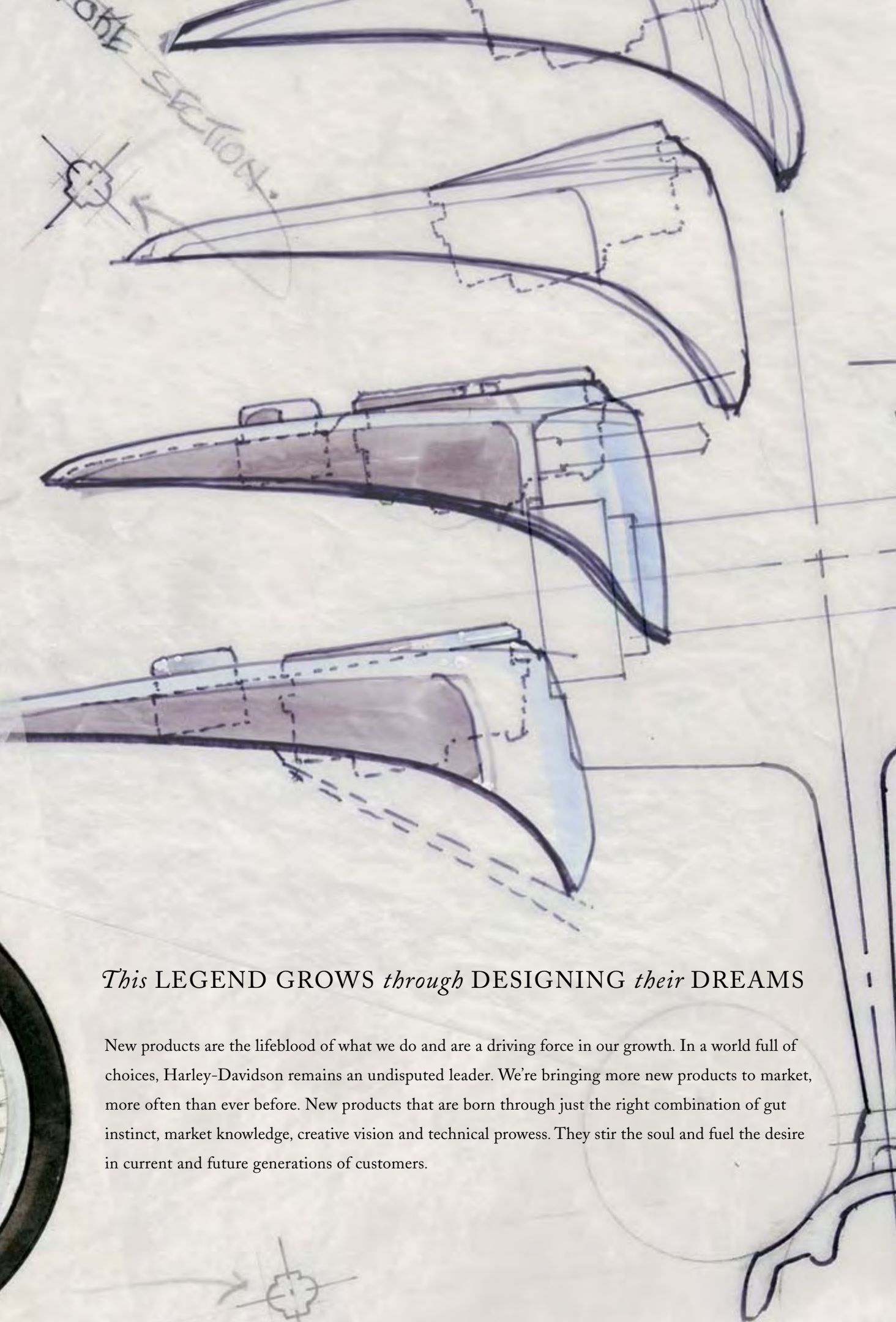
HARLEY-DAVIDSON, INC. DIVIDENDS PER SHARE
2003-2005, in dollars



HARLEY-DAVIDSON, INC. COMMON STOCK PRICES
2003-2005, in dollars

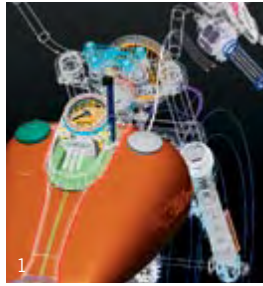






This LEGEND GROWS *through* DESIGNING *their* DREAMS

New products are the lifeblood of what we do and are a driving force in our growth. In a world full of choices, Harley-Davidson remains an undisputed leader. We're bringing more new products to market, more often than ever before. New products that are born through just the right combination of gut instinct, market knowledge, creative vision and technical prowess. They stir the soul and fuel the desire in current and future generations of customers.



PERPETUAL INNOVATION Harley-Davidson is more adept than ever at designing dreams, thanks to investment in product development and the cutting-edge technology we put into the hands of talented designers, technicians and engineers.

Take two examples. Our prototyping lab translates Styling's screen designs into 3-D models almost instantly for laser fast feedback. And our frame design software quickly analyzes any design made of any material, for optimal performance. What used to take weeks now takes hours.

In the two years since doubling the size of our Product Development Center to 409,000 sq. ft., we've debuted 14 Harley-Davidson models. From the first strokes of an idea to the first production run of an entirely new model, the scale of perpetual innovation at Harley-Davidson creates an unparalleled product mix and unequalled consumer choice.

1. **CAD MODELS:** ADVANCING STREET BOB CONCEPTS INTO PRODUCT REALITY.
2. **ENVIRONMENTAL LAB:** ANALYZING CORROSION PROTECTION, CHROME PLATING, PAINT AND THE CHEMICAL PERFORMANCE OF EVERY MATERIAL.
3. **STRUCTURES LAB:** USING STATE-OF-THE-ART COMPUTERS TO RE-CREATE EVERY BUMP IN THE ROAD AND RUN SIMULATIONS 24/7, OPTIMIZING FEEDBACK.
4. **ELECTRO-MAGNETIC COMPATIBILITY TESTING:** THE ONLY ONE OF ITS KIND, HARLEY-DAVIDSON'S EMC LAB TESTS HOW EVERY TYPE OF RADIO WAVE FREQUENCY AFFECTS EVERY VEHICLE.





FLHXI Street Glide™



XL 1200L Sportster® Low



FXDBI Dyna Street Bob™



*FXDI35 35th Anniversary
Super Glide®*



FLSTI Heritage Softail®



VRSCD Night Rod™



VRSCR Street Rod™

*“You’ve encountered these motorcycles
in your mind a hundred times.
We brought them to life, only better.”*

JERRY WILKE, VICE PRESIDENT OF CUSTOMER RELATIONSHIPS
AND MOTORCYCLE PRODUCT PLANNING



XB12X Ulysses™



Lightning® Long XB12Ss

HARLEY-DAVIDSON INTRODUCED SEVEN NEW MODELS FOR 2006, GREW THE LINE TO 36 MODELS AND INTRODUCED A COMPLETELY RE-ENGINEERED DYNA FAMILY OF MOTORCYCLES. WE’RE INTRODUCING MORE NEW MOTORCYCLES FASTER THAN AT ANY TIME IN OUR HISTORY—MOTORCYCLES WHOSE PURPOSE IS TO LEAVE NO SOUL UNSTIRRED, NO PSYCHE UNTOUCHED. WE’RE FULFILLING BUELL RIDERS’ DREAMS, TOO. THE ULYSSES XB12X LAUNCHES THE COMPANY INTO THE ADVENTURE SPORTBIKE MARKET; THE LIGHTNING LONG XB12Ss IMPROVES THE LIGHTNING MODEL’S ERGONOMICS FOR TALLER RIDERS.



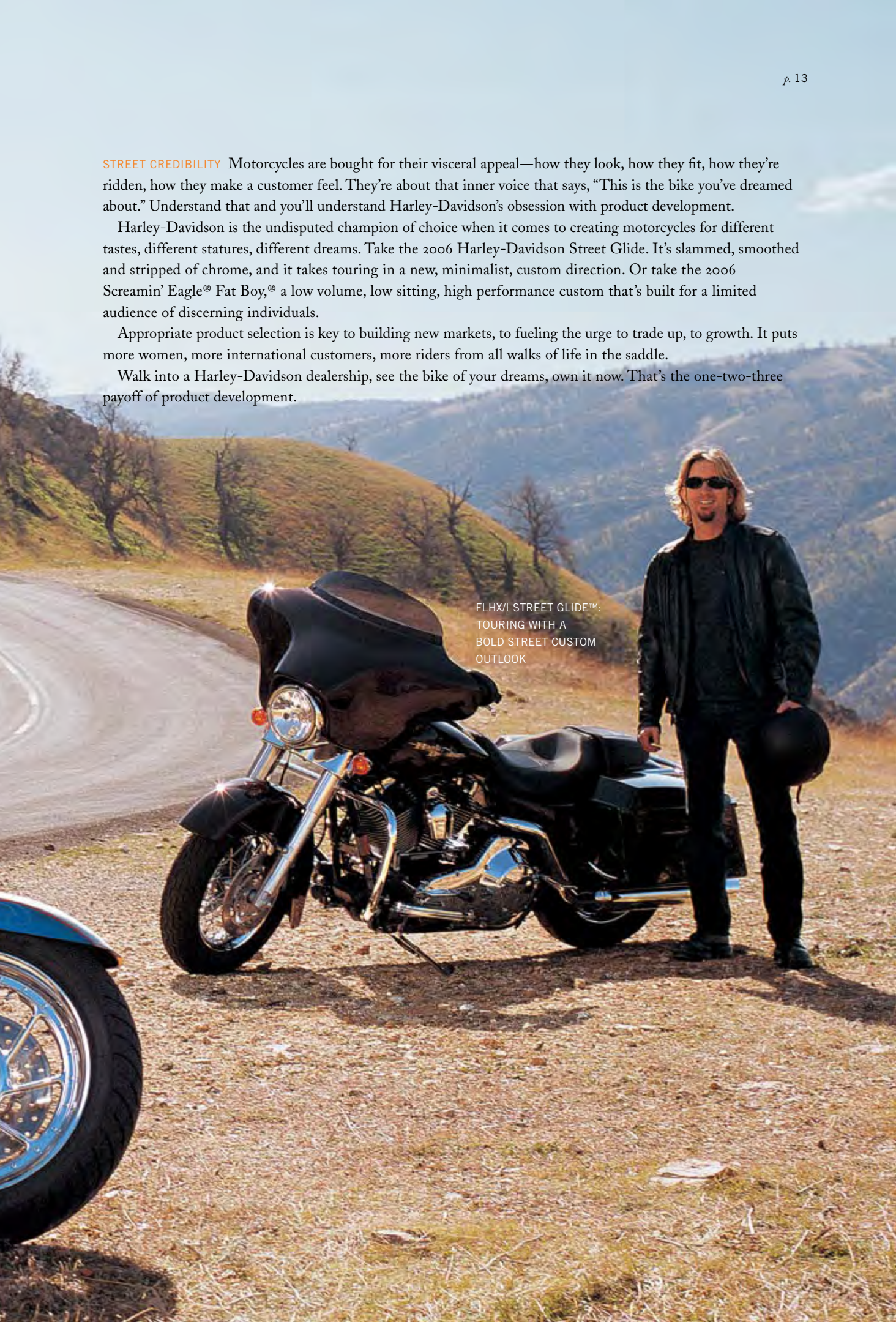
FLSTFSE® SCREAMIN' EAGLE FAT BOY:
POWERFUL STREET CRUISER,
LIMITED EDITION FACTORY CUSTOM

STREET CREDIBILITY Motorcycles are bought for their visceral appeal—how they look, how they fit, how they're ridden, how they make a customer feel. They're about that inner voice that says, "This is the bike you've dreamed about." Understand that and you'll understand Harley-Davidson's obsession with product development.

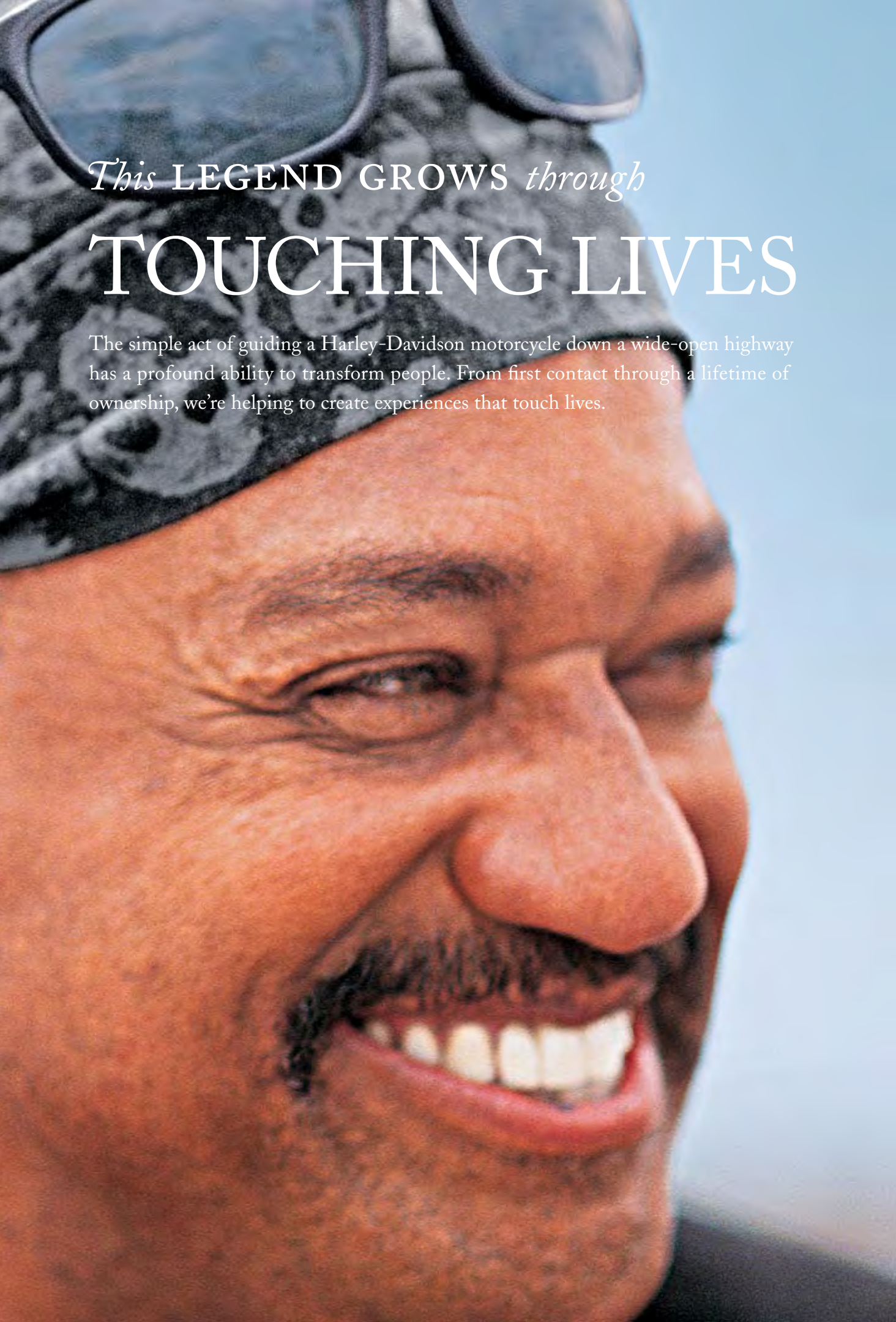
Harley-Davidson is the undisputed champion of choice when it comes to creating motorcycles for different tastes, different statures, different dreams. Take the 2006 Harley-Davidson Street Glide. It's slammed, smoothed and stripped of chrome, and it takes touring in a new, minimalist, custom direction. Or take the 2006 Screamin' Eagle® Fat Boy®, a low volume, low sitting, high performance custom that's built for a limited audience of discerning individuals.

Appropriate product selection is key to building new markets, to fueling the urge to trade up, to growth. It puts more women, more international customers, more riders from all walks of life in the saddle.

Walk into a Harley-Davidson dealership, see the bike of your dreams, own it now. That's the one-two-three payoff of product development.

A man with long blonde hair, wearing sunglasses, a black leather jacket, and black pants, stands next to a black Harley-Davidson Street Glide motorcycle. The motorcycle is parked on a dirt road, and the man is holding a black helmet. The background shows a winding road and rolling hills under a clear sky. The text "FLHX/I STREET GLIDE™: TOURING WITH A BOLD STREET CUSTOM OUTLOOK" is overlaid on the image.

FLHX/I STREET GLIDE™:
TOURING WITH A
BOLD STREET CUSTOM
OUTLOOK



This LEGEND GROWS *through*

TOUCHING LIVES

The simple act of guiding a Harley-Davidson motorcycle down a wide-open highway has a profound ability to transform people. From first contact through a lifetime of ownership, we're helping to create experiences that touch lives.

“A strong emotional tug draws people to Harley-Davidson and Buell. Emotions play a huge role in every customer relationship. Millions of people dream about riding our motorcycles—often at a young age—and have an emotional connection to the brand before they ever experience it up close. Then something happens to kick their journey into high gear, and bam! Every person who rides a Harley-Davidson or Buell motorcycle has experienced the emotion of that moment.”

JIM ZIEMER, PRESIDENT AND CEO, HARLEY-DAVIDSON, INC.





TO KNOW THE MARKET, NOTHING QUITE EQUALS TALK. HARLEY-DAVIDSON AND BUELL LEADERS CONNECT WITH RIDERS AT DEMO RIDES, LONG BEACH, CALIFORNIA, DECEMBER 2005.

DIALED-UP RELATIONSHIPS Join us at any of dozens of motorcycle events and you'll get a quick education on a not-so-secret part of our success: relationships.

In 2005, Harley-Davidson and Buell had a strong presence at motorcycle events far and wide, just like always. But then we dialed it up a notch and sent our senior-most leaders—everyone in management at director level and above—off to major motorcycle events worldwide. From morning to night, they talked bikes, swapped stories about life on two wheels, and joined in group rides.

There's nothing more valuable than the opinions of customers, competitive brand owners and those who dream of owning to help shape our products and services. So we're going to the sources, at major motorcycle rallies and shows, Harley Owners Group® events, races, Muscular Dystrophy Association fundraisers, women's events, African American and Hispanic rallies and more.

Harley-Davidson believes so strongly in this approach that we now have a special group whose focus is to ensure that customer relationships and outreach receive our undivided attention. It's all about connecting rider-to-rider, one at a time.



In 2005, **160** of our senior-most leaders, *two and three at a time*, attended 150 bike shows, rallies and rides. Another **500** Harley-Davidson and Buell employees *worked events over the course of the year*. Add these together, multiply by all the customer connections they make, and you begin to understand the power of relationships.

CUSTOM BIKES When it comes to custom, nobody comes close to Harley-Davidson. Customization is a big reason why customers ride and buy, and it's a clear competitive advantage. With more than 7,000 accessories currently in the line, Harley-Davidson delivers more combinations of cool than anyone.

But customization is more than just good looks. Through Genuine Parts & Accessories, Harley-Davidson can fit just about any rider to any one of our motorcycles. With more than 400 combinations of great-looking seats, bars, pegs and controls, no rider has to settle for anything other than the bike of his or her dreams.

And thanks to online tools like "Customizer" and "Shop For Your Bike" at www.harley-davidson.com, and in-store services like Chrome Consulting, we're making personalization easier than ever.



ONE MOTORCYCLE, THREE WAYS OF LOOKING AT THE WORLD: THROUGH CUSTOMIZATION, EACH OF THESE HARLEY-DAVIDSON SOFTAIL® DELUXE MOTORCYCLES IS READY FOR AN INDIVIDUALIZED CALLING, FROM CRUISING TO TOURING TO SHOWING OFF.

CUSTOM LOOKS Harley-Davidson General Merchandise is part of the customer's journey—both literally and figuratively. MotorClothes apparel is a major part of the total Harley-Davidson experience, before, during and after the ride. Core and seasonal collections are unequaled for performance, style and emotional kick. And with countless ways for people to customize a look and express their individuality, MotorClothes merchandise and related products bring customers into dealerships time and again. This knack for hitting the market with the right mix of constantly evolving merchandise, at the right time, is a big part of our formula for success.

General Merchandise, including licensed products and collectibles, also makes emotional connections that build for the future through products like the home customization line for children. Announced in 2005, and hitting retail stores and dealerships this spring, this licensed line of sheets, towels and related products will help even the youngest enthusiasts dream of a future on the open road.

THE HARLEY-DAVIDSON FXRG® LINE IS TOUGH, HIGH-PERFORMANCE GEAR, DESIGNED TO KEEP RIDERS COMFORTABLE WHATEVER THE JOURNEY BRINGS. FIRST INTRODUCED IN 1998, AND ALREADY OUR ALL-TIME BEST SELLER, WE MIGHT HAVE LEFT THE FXRG MID-WEIGHT JACKET ALONE. INSTEAD, WE IMPROVED THE FEATURES, FIT AND MATERIALS IN 2005, AND FXRG HELPED LEAD GENERAL MERCHANDISE TO RECORD SALES.

“One size doesn’t fit all. One size fits one. There is no company that can make one production motorcycle to fit everybody. People are never the same.”

LAURA LISTER, CHROME CONSULTANT, LAS VEGAS HARLEY-DAVIDSON



MAKING THE BEST EVEN BETTER.
IMPROVEMENTS INCLUDE:

1. PRIMALOFT 2-IN-1 WARMTH LINER IS REMOVABLE, DOUBLES AS A SEPARATE JACKET, HOLDS HEAT PACKS.
2. NEOPRENE INNER COLLAR ADJUSTS AROUND THE NECK TO SEAL OUT WATER.
3. POCKET SYSTEM HOLDS CELL PHONES, GLASSES, ESSENTIALS.

OPENING NEW WORLDS In a single stroke, the Rider's Edge® New Rider Course from Harley-Davidson has great power to change lives. That's because learning to ride marks a whole new way to experience the world. For more than 70,000 students since 2000, Rider's Edge has inspired self-confidence and introduced them to the instant connection of another rider's passing wave. But then, Harley-Davidson is full of life-enriching experiences, from the 15-day challenge of a H.O.G.® Posse Ride, to Authorized Rentals and Tours that make dream vacations possible, to one-stop financing and insurance from Harley-Davidson Financial Services, to name just a few. And with more rider services rolling out each year, opportunities to touch lives are growing like never before.



ONE STEP AT A TIME, RIDER'S EDGE COURSES DISSOLVE APPREHENSIONS AND BUILD CONFIDENT RIDERS. IN 2005, THE NEW RIDER COURSE WAS THE WELCOME SIGN TO HARLEY-DAVIDSON FOR MORE THAN 22,000 STUDENTS. THEY'RE NEW TO THE SPORT (90% HAVE LITTLE OR NO RIDING EXPERIENCE), YOUNG (ONE-THIRD ARE UNDER AGE 35) AND DIVERSE (40% ARE WOMEN).



THE POWER OF TORQUE On the track and down the quarter mile, racing reaches deep into Harley-Davidson's soul. In 2005, Andrew Hines charged his way into the record books aboard his Screamin' Eagle/Vance & Hines Harley-Davidson pro stock drag bike, taking his second straight NHRA championship and becoming the only rider in NHRA history to break through the hallowed six-second barrier in the quarter mile.

Through NHRA racing, Harley-Davidson gains exposure to more than two million spectators annually (nearly half under age 35) and to a national ESPN audience for each event. And races are obviously great ride destinations. Together with the race-ready Harley-Davidson Destroyer (below), drag racing is a robust marketing tool that builds brand equity, affinity for the V-Rod platform and product demand across the Harley-Davidson family of products.

AN OFF-THE-SHELF DRAG BIKE FROM HARLEY-DAVIDSON, THE 2006 SCREAMIN' EAGLE V-ROD® DESTROYER GENERATED TRIPLE THE EXPECTED ORDER VOLUME.







SPIRIT OF NON-COMFORMITY One has two wheels and a powerful engine. The other has four and is a study in self-propulsion. What motorcycles and skateboards share is attitude—a way to defy convention and conformity, to express individuality and go where adventure leads.

In summer '05, we brought pro skateboarder and Harley-Davidson enthusiast Heath Kirchart and three of his fellow Team America pro skaters together for a Harley-Davidson road experience. The connection was immediate, and during a multi-city tour en route to the “Wild in the Streets” Philadelphia skateboarding rally, the bond among skaters, fans and Harley-Davidson motorcycles was a natural.

Natural connection also explains a lot about the *DUB* custom Harley-Davidson Fat Boy. *DUB* bills itself as “the original automotive lifestyles magazine” and is a showcase for cutting-edge custom cars, reaching a predominantly African-American audience. So together, the custom leaders at Harley-Davidson and *DUB* created a knock-out project bike for the magazine, and to showcase at *DUB*’s custom auto show and concert tour.

Some might call these examples of guerrilla marketing. Harley-Davidson calls it making new connections with kindred spirits.



ABOVE: CUSTOM PAINT, CHROME AND 94.3 INCHES OF ATTITUDE MARK THE 2006 FAT BOY *DUB* PROJECT BIKE.

LEFT: STEALTH OPPORTUNITY TO DEFY CONVENTION AT A MIDNIGHT UNDERPASS “SKATE PARK,” ILLUMINATION COURTESY OF HARLEY-DAVIDSON.

This LEGEND

“Operational Excellence is the relentless drive to eliminate waste through daily,

GROWS *through*

continuous, gradual improvement in everything we do, at all levels of

STRENGTH

the Company. In a similar way, continual improvement by dealers enables them

in EXECUTION

to perform better and reach new customers with each passing day.”

EVERY DAY

JAMES A. MCCASLIN, PRESIDENT AND CHIEF OPERATING OFFICER, HARLEY-DAVIDSON MOTOR COMPANY



FINDING A BETTER WAY That’s the essence of Operational Excellence throughout all Harley-Davidson facilities.

When volume growth put a capacity squeeze on our Kansas City plant’s wheel production, for example, the Wheel Group put Operational Excellence to work. They reconfigured layouts and processes to gain capacity, reduced work-in-progress and handling by 50%, and went from three operating shifts to two. For the Paint Group, the challenge was having the right part in the right place at the right time. It was no small task, given the 17 models, 13 paint colors and 121 total color combinations produced at Kansas City. So the team did a deep dive in the use of visual management tools to dramatically improve the sequencing and delivery of painted parts to assembly lines.

We’re finding “better ways” in all of Harley-Davidson’s offices, too, like migrating to a standard financial software platform across all business units and improving our forecasting for new performance accessories.

Bottom line, Operational Excellence is getting out waste, improving quality and helping drive customer satisfaction.

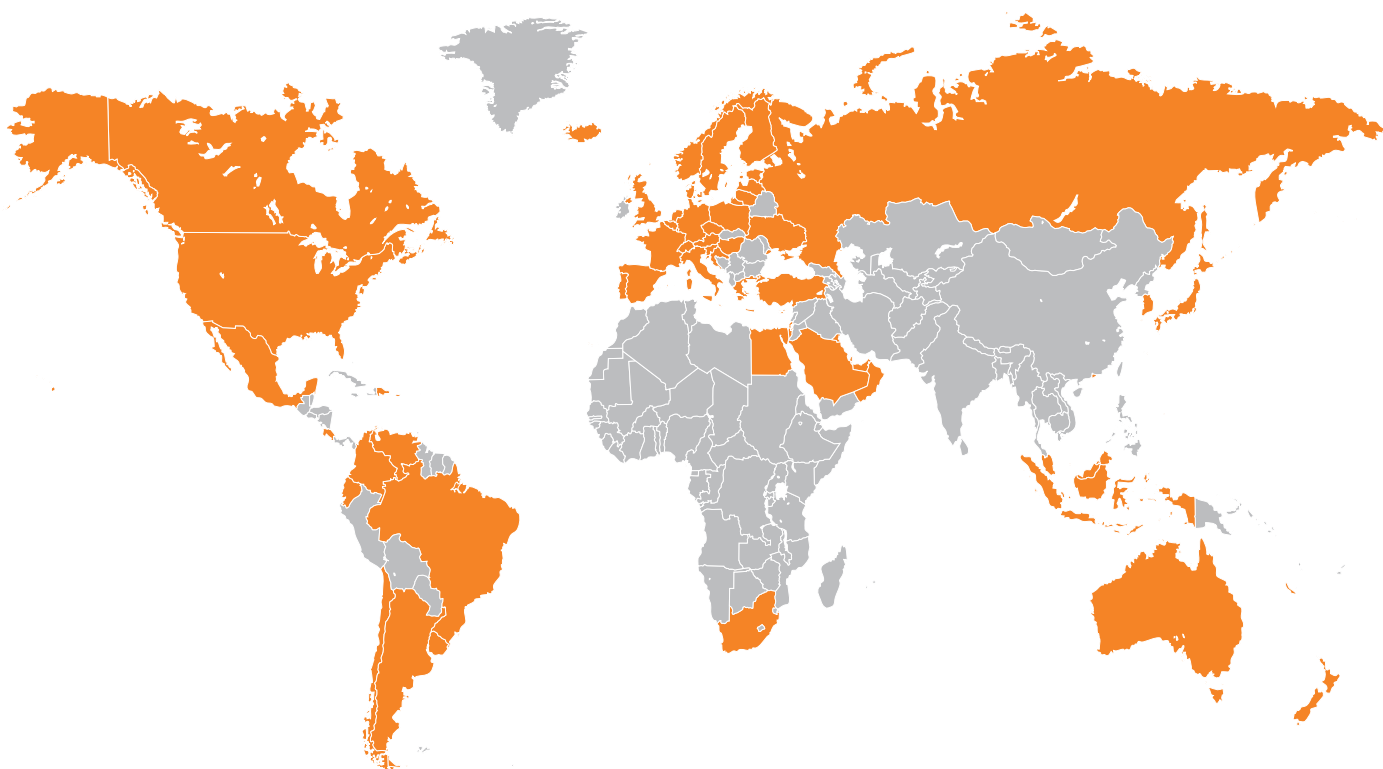


HARLEY-DAVIDSON’S KANSAS CITY OPERATIONS HOME OF THE DYNA, V-ROD AND SPORTSTER MOTORCYCLE FAMILIES. CLOCKWISE FROM UPPER LEFT: SPORTSTER FRAMES; GAS TANKS STAGED FOR PAINTING; WHEEL LACING; SPORTSTER ASSEMBLY; CRATING; ROLLER TEST; PAINTED FENDERS; MATING ENGINE TO MOTORCYCLE.

EXCELLENCE WORLDWIDE It's a story that unfolds daily around the world. From Moscow—where the first Harley-Davidson dealership since the Bolshevik Revolution opened in 2005—to the Gateway Arch, the Golden Gate and soon to China, Harley-Davidson dealers are a real force that generates growth through retail performance.

Together with the Motor Company, our dealers are hard at work honing business practices that continue to make them the industry's best, whether it's front-line sales practices or using financial systems that provide a snapshot of their business performance in a flash.

In 2005, Harley-Davidson's 1,300 dealers worldwide invested in more than 666,000 hours of learning for their employees and themselves, through Harley-Davidson University and Performance Consulting. It's a multi-million dollar investment in their futures—and ours—that's improving every area of dealer operations.



HARLEY-DAVIDSON AND BUELL CONTINUE TO GROW THEIR REACH AROUND THE GLOBE. IN 2005, OUR MOTORCYCLES WERE SOLD THROUGH RETAIL STORES IN MORE THAN 60 COUNTRIES (IN ORANGE ABOVE) AND THE HARLEY-DAVIDSON BRAND REMAINED AMONG THE MOST RECOGNIZED WORLDWIDE. IN 2005, RETAIL HARLEY-DAVIDSON MOTORCYCLE SALES WERE UP NEARLY 20% IN EUROPE AND 15% OVERALL INTERNATIONALLY.

SÃO PAULO, MOSCOW *and* NEW ROCHELLE

were among the new dealerships that opened their doors to customers in 2005. Together with the dozens of other dealers who expanded or relocated, they're bringing new dimensions to what customers experience, wherever customers go.



HIRING FOR KEEPS It's often a challenge for dealers to find and keep high-performance employees. But with help from the Motor Company, dealers cut service staff turnover by two-thirds. Now, we're bringing the same focus to dealers' sales staffs, where relationships are just as important.

"It's not difficult to find good employees who love motorcycles and relate well. But then we've got to develop their skills. We're a big believer in Harley-Davidson University." SCOTT MADDUX

SMOKY MOUNTAIN HARLEY-DAVIDSON, MARYVILLE, TENNESSEE



HIGH-POWERED PERFORMANCE Performance Consulting helps dealers excel. Top industry consultants, dealer peer groups and Motor Company experts, together with a rigorous, timely system of reports, steer dealers to greater bottom-line potential.

"Our peer group has been a terrific way to share best practices and get ideas. Plus, the key business indicator reports help us understand what's happening in real time and stay on track." ASA MURRAY

HARLEY-DAVIDSON OF OCEAN COUNTY, LAKEWOOD, NEW JERSEY



INTERNATIONAL RESULTS One reason for Harley-Davidson's international growth is our work to strengthen the retail network. Take Manchester, England, where a new Harley-Davidson and Buell dealer tripled new bike sales in just two years.

"Results come from many things—having the right staff to work with customers, great high-visibility properties, strong merchandising, lots of events and guidance from the Motor Company." JOHN COOKE

MANCHESTER HARLEY-DAVIDSON, MANCHESTER, ENGLAND



A LITTLE ENCOURAGEMENT As a test concept, the Harley-Davidson Garage Party quickly showed its potential. The idea is simple: a women-only event for learning about motorcycles in a friendly dealership setting.

"Our Garage Party didn't compare to anything we'd done. What a neat thing! People walked in the door that you never in a million years would think were interested in motorcycles. We had 82 women and a great response. We sold five bikes." PAT BUSH

DOC'S HARLEY-DAVIDSON, KIRKWOOD, MISSOURI



TRADING UP Taking competitive brand (a.k.a. metric) bikes in on trade or having a selection of choice pre-owned Harley-Davidson motorcycles available can be the ticket in for riders. Whether at bike auctions or on the showroom floor, dealers are learning to leverage used bikes to drive new business.

"There are thousands of metric motorcycles out there. Trade-ins send a powerful message that those riders are welcome here." JIM FOSTER

THE HARLEY-DAVIDSON STORE, BALTIMORE, MARYLAND

This LEGEND GROWS *through*

GIVING BACK

It began 25 years ago as a way to help others and prove that motorcyclists have heart. In 2005, the Harley-Davidson family raised \$4.6 million for the Muscular Dystrophy Association, topping out the 25-year total at more than \$55 million, thanks to tens of thousands of riders, dealers, employees and suppliers. And in Harley-Davidson's hometowns, the Harley-Davidson Foundation supported initiatives to build strong communities, to the tune of \$3.1 million in 2005. Harley-Davidson also reached out to those impacted by disaster, with a \$1 million gift to hurricane relief efforts.



PARTICIPANTS IN HARLEY-DAVIDSON OF SALT LAKE CITY'S ANNUAL WENDOVER RIDE HAD A GREAT TIME AND RAISED \$85,000 TOWARD THE HARLEY-DAVIDSON FAMILY'S 2005 TOTAL FOR THE MDA.

This LEGEND GROWS *through*

THE RESULTS

2005 FINANCIAL REPORT

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Financial Performance

In 2005, the Company's net revenue and net income grew 6.5 percent and 7.8 percent, respectively, making 2005 the 20th consecutive year of record net revenue and net income. Net revenue of \$5.3 billion was \$327 million higher than in 2004, while 2005 net income of \$960 million was \$70 million higher than last year.

Revenue from sales of Harley-Davidson® motorcycles grew to \$4.2 billion in 2005, an increase of 6.5 percent over 2004. In 2005, Harley-Davidson motorcycle shipments were a record 329,000 units, up 3.7 percent over 2004. Buell motorcycle revenue of \$93 million was up 17.8 percent. Revenue of Genuine Parts and Accessories in 2005 totaled \$815.7 million, a 4.4 percent increase over the previous year, and General Merchandise revenue was \$247.9 million, an increase of 10.8 percent compared to 2004.

Harley-Davidson continues to effectively manage its balance sheet and realized a return on average equity (ROE) in 2005 of 30.5 percent. The Company has maintained an ROE over 25 percent every year for more than 5 years, and over 20 percent every year for more than a decade.

While the Company's share price decreased 15.2 percent during 2005, total return on Harley-Davidson stock for the five-year period ending on December 31, 2005 has outperformed the S&P 500 by over 30 percent. The Company increased its dividend for the 13th consecutive year in 2005, increasing dividends paid per share by over 50% compared to 2004. Since the end of 1986, the year Harley-Davidson, Inc. became a public

company, shareholders have enjoyed a compound annual growth rate of over 30 percent, along with five 2-for-1 stock splits.

HARLEY-DAVIDSON MOTORCYCLES: Worldwide retail sales of Harley-Davidson motorcycles grew 6.2 percent in 2005 and exceeded the worldwide market growth rate for heavyweight motorcycles for the seventh year in a row.

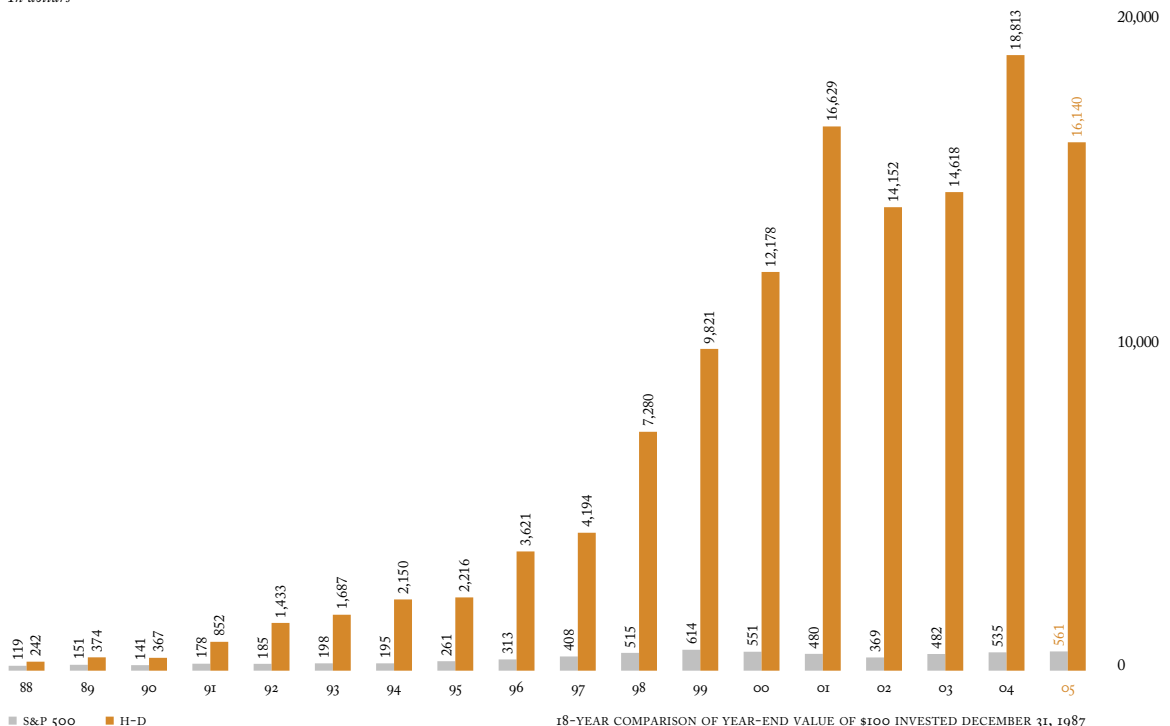
In North America, 2005 retail sales of Harley-Davidson motorcycles increased 4.2 percent over 2004. In Europe, retail sales of Harley-Davidson motorcycles increased 19.9 percent, and in Japan, retail sales of Harley-Davidson motorcycles increased over 11 percent compared to 2004. Annual retail sales in 2005 increased in Canada, and also increased in total for our additional remaining markets.

Looking to 2006, the Company expects demand for its products to continue to grow. As a result, at the end of 2005 the Company set a wholesale shipment target of 348,000 to 352,000 Harley-Davidson motorcycles. Harley-Davidson will continue to strive to introduce exciting new products and services that appeal to a diverse and growing motorcycle enthusiast population.

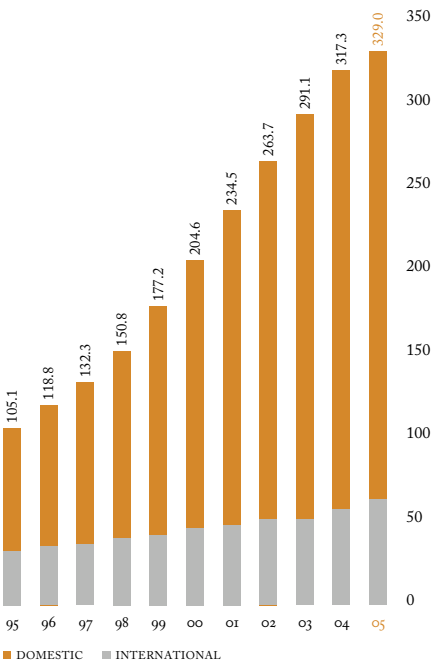
HARLEY-DAVIDSON FINANCIAL SERVICES: Harley-Davidson Financial Services (HDFS) continued a 12-year run of strong earnings growth. Operating income increased from \$188.6 million in 2004 to \$191.6 million in 2005 as HDFS benefited from its increased wholesale and retail lending and strong Market Share.

HARLEY-DAVIDSON, INC. vs. STANDARD & POOR'S 500 COMPOSITE INDEX

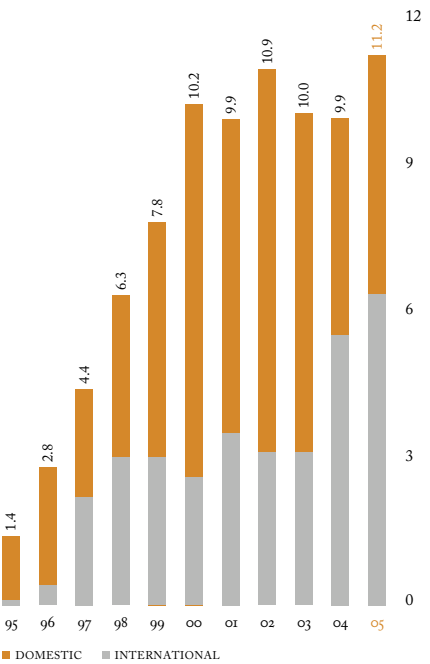
In dollars



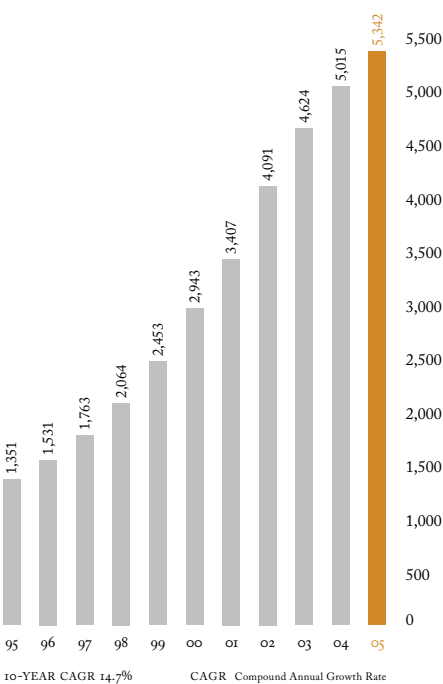
HARLEY-DAVIDSON MOTORCYCLE
WORLDWIDE SHIPMENTS
Units in thousands



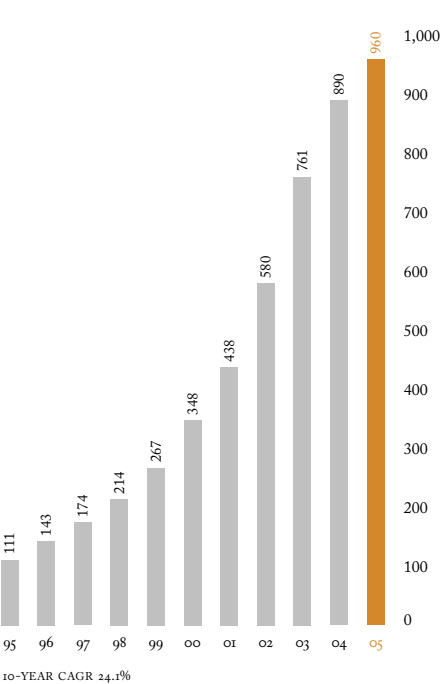
BUELL MOTORCYCLE
WORLDWIDE SHIPMENTS
Units in thousands



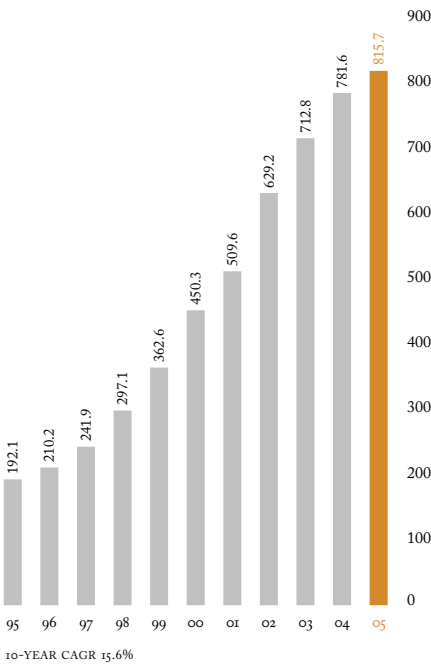
HARLEY-DAVIDSON, INC
NET REVENUE
Dollars in millions



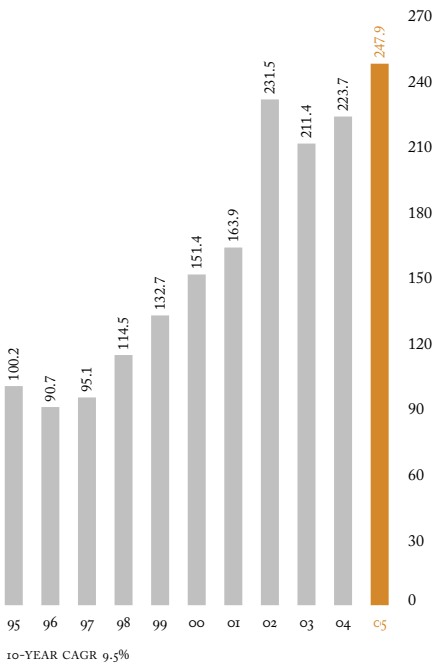
HARLEY-DAVIDSON, INC
NET INCOME FROM CONTINUING OPERATIONS
Dollars in millions



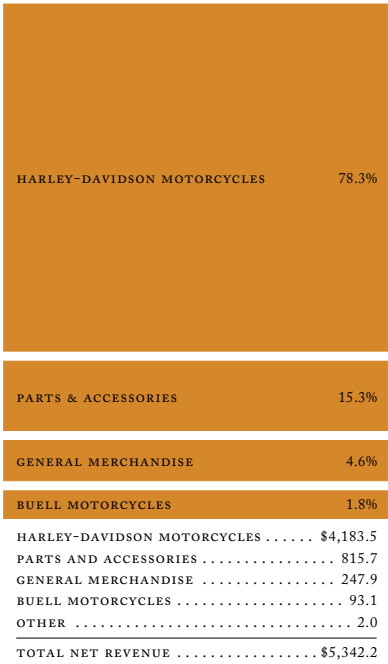
WORLDWIDE
PARTS AND ACCESSORIES NET REVENUE
Dollars in millions



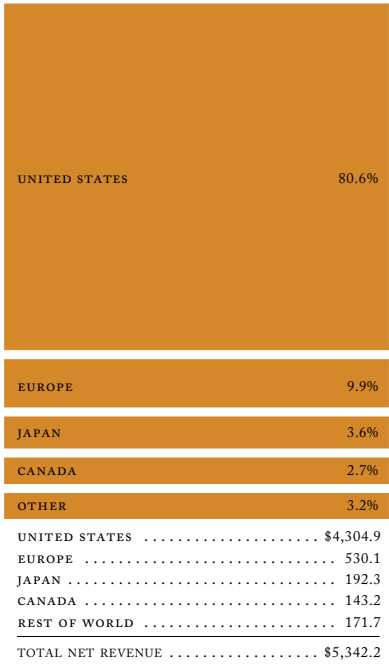
WORLDWIDE
GENERAL MERCHANDISE NET REVENUE
Dollars in millions



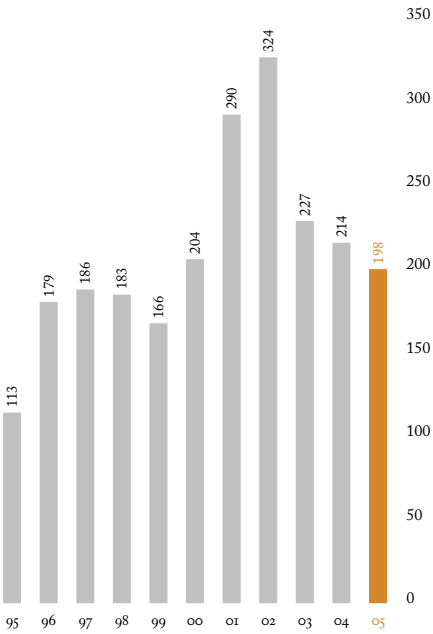
2005 WORLDWIDE
NET REVENUE BY PRODUCT LINE
Dollars in millions



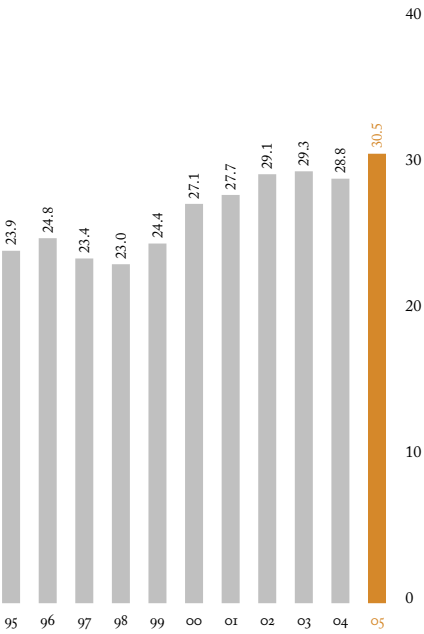
2005 WORLDWIDE
NET REVENUE BY REGION
Dollars in millions



HARLEY-DAVIDSON, INC.
CAPITAL EXPENDITURES
Dollars in millions

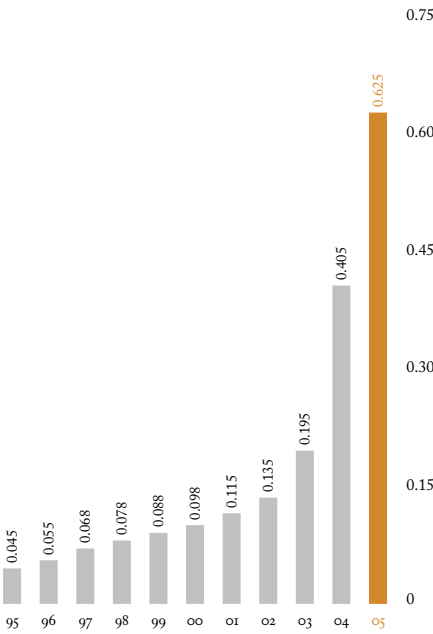


HARLEY-DAVIDSON, INC.
RETURN ON EQUITY (ROE)⁽¹⁾
Percentage



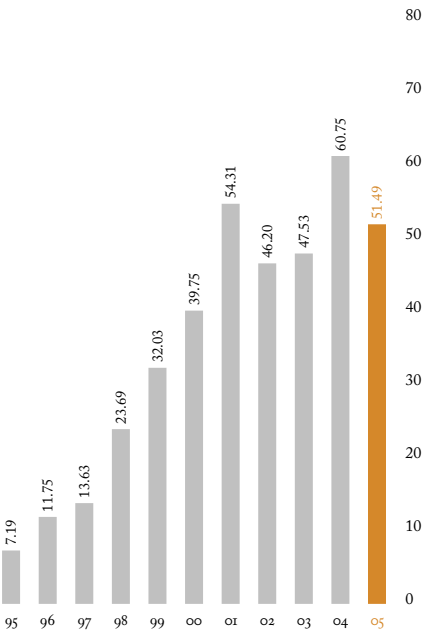
⁽¹⁾ROE = Net Income / Average Shareholders' Equity

HARLEY-DAVIDSON, INC.
DIVIDENDS PER SHARE
In dollars



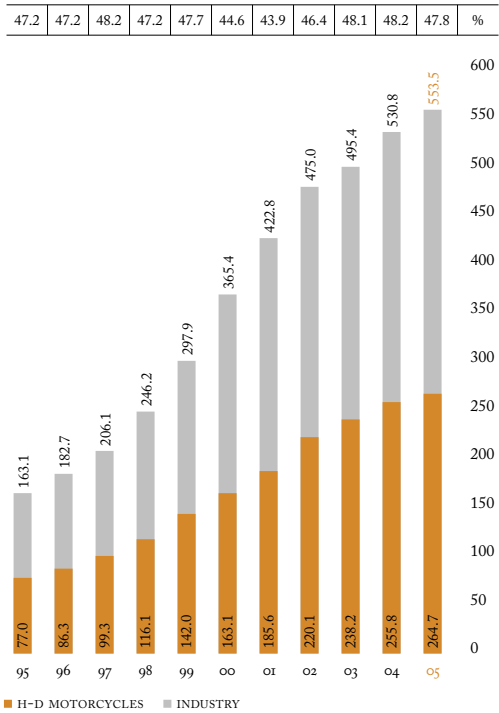
10-YEAR CAGR: 30.1%

HARLEY-DAVIDSON, INC.
YEAR-END STOCK PRICES
In dollars, adjusted for splits

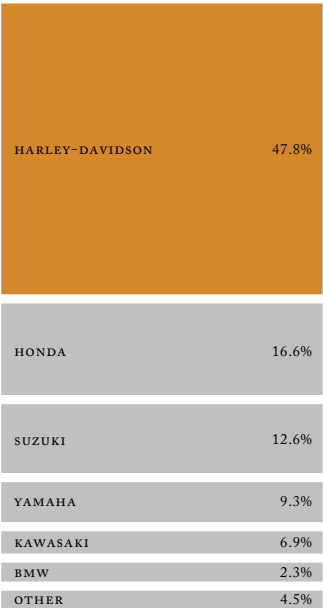


10-YEAR CAGR: 21.8%

NORTH AMERICA
651+CC MOTORCYCLE REGISTRATION H-D vs. INDUSTRY
Units in thousands



MARKET SHARE

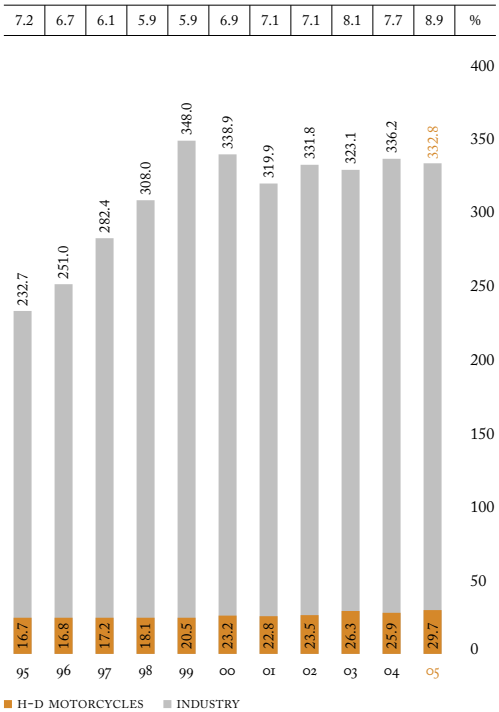


Market Share for Harley-Davidson includes U.S. and Canada.

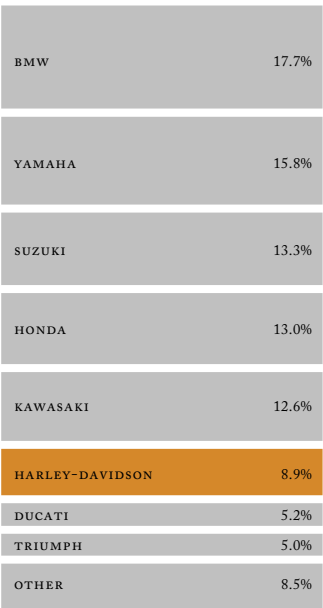
U.S. data provided by R.L.Polk & Company (1995), Motorcycle Industry Council (MIC) (1996-2005). Canada data provided by Maped & Motorcycle Industry of Canada.

The Company must rely on data compiled by independent agencies to obtain industry-wide retail registration data necessary for calculating Market Share. The retail registration data for Harley-Davidson motorcycles included in the North America data presented in this table differs slightly from the U.S. and Canadian Harley-Davidson retail sales data presented in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) section of this report. The Company's source for retail sales data presented in the MD&A section of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The differences are not significant and generally relate to the timing of data submissions to the independent sources.

EUROPE
651+CC MOTORCYCLE REGISTRATION H-D vs. INDUSTRY
Units in thousands



MARKET SHARE



Market Share for Harley-Davidson and industry data includes Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and United Kingdom.

Data provided by Giral S.A.

The Company must rely on data compiled by independent agencies to obtain industry-wide retail registration data necessary for calculating Market Share. The retail registration data for Harley-Davidson motorcycles presented in this table may differ slightly from the Harley-Davidson retail sales data presented in the MD&A section of this report. The Company's source for retail sales data presented in the MD&A section of this report is sales and warranty registrations provided by Harley-Davidson dealers as compiled by the Company. The differences are not significant and generally relate to the timing of data submissions to the independent sources.

*H-D unit column not to scale

HARLEY-DAVIDSON, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Harley-Davidson, Inc. is the parent company for the groups of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company and Harley-Davidson Financial Services (HDFS). Harley-Davidson Motor Company produces heavyweight motorcycles and offers a complete line of motorcycle parts, accessories, apparel and general merchandise. Harley-Davidson Motor Company manufactures five families of motorcycles: Touring, Dyna™, Softail®, VRSC™ and Sportster®. Buell Motorcycle Company produces sport motorcycles, including seven twin-cylinder XB models and the single-cylinder Buell® Blast®. Buell also offers a line of motorcycle parts, accessories, apparel and general merchandise. Harley-Davidson Financial Services provides wholesale and retail financing and insurance programs primarily to Harley-Davidson/Buell dealers and customers. The Company operates in two principal business segments: Motorcycles and Related Products (Motorcycles) and Financial Services (Financial Services).

Overview⁽¹⁾

The Company's net revenue for 2005 was \$5.34 billion, up 6.5% over last year, on 329,017 wholesale shipments of Harley-Davidson motorcycles. Revenue growth during 2005 was due primarily to a 3.7% increase in shipments of Harley-Davidson motorcycles combined with a favorable change in the mix of motorcycles shipped when compared to 2004. Net income and diluted earnings per share also grew during 2005 with increases over prior year of 7.8% and 13.7%, respectively. The increase in diluted earnings per share includes the benefit of fewer weighted-average shares outstanding when compared to the prior year. The Company's outstanding shares have decreased as a result of common stock repurchases totaling 21.4 million shares during 2005.

The Company's independent dealer network also reported increases in motorcycle unit sales during 2005 with worldwide retail sales of Harley-Davidson® motorcycles increasing 6.2% over the prior year. Management believes the Company's lineup of 2006 model year motorcycles, introduced in July 2005, helped drive worldwide retail sales growth during 2005. In the United States, 2005 retail sales of Harley-Davidson motorcycles grew 4.2% over 2004. Outside of the United States, retail sales of Harley-Davidson motorcycles grew 15.0% during 2005 when compared with 2004. During 2005, retail sales increased in all of the Company's major international markets. The retail sales data reported above is

compiled by the Company from sales and warranty registrations provided by the Company's independent dealers.

Management believes the prospects for growth in retail sales of Harley-Davidson motorcycles remain strong and support a wholesale unit growth rate in the range of 5% to 9% annually and an annual EPS growth rate of 11% to 17%. The Harley-Davidson motorcycle shipment target for 2006 is in the range of 348,000 to 352,000 units, with planned wholesale shipments of 79,000 motorcycles during the first quarter of 2006.

Over the last several years the Company has been working to increase the availability of its motorcycles at dealers to improve the customer experience. The Company believes that increased availability will lead to independent dealers providing wider selections of motorcycles at manufacturer's suggested retail prices and, as a result, the Company will be better positioned to attract retail buyers that are new to the brand or new to the sport of motorcycling. The Company understands that improving the availability of its motorcycles to customers may result in retail purchases that will track more closely with the riding season, requiring the Company and its independent dealers to balance the economies of level production with a more seasonal retail sales pattern.

The "% Change" figures included in the "Results of Operations" section have been calculated using unrounded dollar amounts and may differ from calculations using the rounded dollar amounts presented.

Results of Operations 2005 Compared to 2004

OVERALL: Net revenue for 2005 totaled \$5.34 billion, a \$327.0 million or 6.5% increase over the prior year. Net income for 2005 was \$959.6 million compared to \$889.8 million in 2004, an increase of 7.8%. Diluted earnings per share for 2005 were \$3.41 representing a 13.7% increase over 2004 earnings per share of \$3.00. Diluted earnings per share were positively impacted during 2005 by a decrease in the weighted-average shares outstanding, which were 281.0 million in 2005 compared to 296.9 million in 2004. The decrease in weighted-average shares outstanding was due primarily to the Company's repurchase of 21.4 million shares of common stock that occurred during 2005. The Company's share repurchases are discussed in further detail under "Liquidity and Capital Resources."

The Company paid dividends in 2005 of \$.125 per share in March, \$.16 per share in June and September and \$.18 per share in December. The aggregate annual dividend paid in 2005 was \$.625 per share, representing a 54.3% increase over the aggregate annual dividend of \$.405 per share in 2004.

(1) Note Regarding Forward-Looking Statements The Company intends that certain matters discussed in this report are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such by reference to this footnote or because the context of the statement will include words such as the Company "believes," "anticipates," "expects," "plans," or "estimates" or words of similar meaning. Similarly, statements that describe future plans, objectives, outlooks, targets, guidance or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this report. Certain of such risks and uncertainties are described in close proximity to such statements or elsewhere in this report, including under the caption "Cautionary Statements" included in this report and in Item 1A "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date of the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and the Company disclaims any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

MOTORCYCLE UNIT SHIPMENTS AND NET REVENUE: The following table includes wholesale motorcycle unit shipments and net revenue for the Motorcycles segment for 2005 and 2004:

(in millions)	2005	2004	INCREASE (DECREASE)	% CHANGE
Motorcycle Unit Shipments				
Touring motorcycle units	110,193	93,305	16,888	18.1%
Custom motorcycle units*	148,609	154,163	(5,554)	(3.6)
Sportster motorcycle units	70,215	69,821	394	0.5
Harley-Davidson motorcycle units	329,017	317,289	11,728	3.7
Buell motorcycle units	11,166	9,857	1,309	13.3
Total motorcycle units	340,183	327,146	13,037	4.0%
Net Revenue				
Harley-Davidson motorcycles	\$4,183.5	\$3,928.2	\$255.3	6.5%
Buell motorcycles	93.1	79.0	14.1	17.8
Total motorcycles	4,276.6	4,007.2	269.4	6.7
Parts & Accessories	815.7	781.6	34.1	4.4
General Merchandise	247.9	223.7	24.2	10.8
Other	2.0	2.7	(0.7)	(19.5)
Net revenue	\$5,342.2	\$5,015.2	\$327.0	6.5%

* Custom motorcycle units, as used in this table, include Softail, Dyna, VRSC and other custom models.

During 2005, Harley-Davidson motorcycle revenue was up 6.5% over 2004 due primarily to an increase in Harley-Davidson motorcycle shipments of 11,728 units. Harley-Davidson motorcycle revenue also benefited during 2005 from a favorable change in product mix which related primarily to an increase in the percentage of shipments consisting of higher-priced touring motorcycles. Touring motorcycles made up 33.5% of shipments in 2005 compared to 29.4% in 2004.

Harley-Davidson motorcycle revenue was also impacted during 2005 by changes in average wholesale prices and fluctuations in foreign exchange rates. Wholesale price increases on 2006 model year motorcycles averaged approximately 1% and resulted in approximately \$17.0 million of higher revenue during 2005 when compared to 2004. Changes in foreign currency exchange rates, related primarily to European currencies, resulted in approximately \$7.0 million of higher revenue during 2005 when compared to 2004.

During 2005, net revenue from Parts and Accessories (P&A) was up 4.4% over 2004. P&A revenue growth in 2005 was driven by the increase in Harley-Davidson motorcycle shipments. On a long-term basis, the Company expects the growth rate for P&A revenue to be slightly higher than the growth rate for Harley-Davidson motorcycle units.⁽¹⁾

General Merchandise revenue during 2005 was 10.8% higher than the prior year. The Company expects that the long-term growth rate for General Merchandise revenue will be lower than the growth rate for Harley-Davidson motorcycle units.⁽¹⁾

HARLEY-DAVIDSON MOTORCYCLE RETAIL SALES: The Company's wholesale motorcycle unit shipments are retailed through an independent worldwide dealer network. Worldwide retail sales of Harley-Davidson motorcycles grew 6.2% during 2005 over the prior year. Retail sales of Harley-Davidson motorcycles increased 4.2% in the United States and 15.0% internationally, when compared to 2004. On an industry-wide basis the heavyweight (651+cc) portion of the market was up 4.8% in the United States and down 1.0% in Europe, when compared to 2004. The following table includes retail unit sales of Harley-Davidson motorcycles for 2005 and 2004:

HARLEY-DAVIDSON MOTORCYCLE RETAIL SALES^(a)

Heavyweight (651+ cc)

(units in thousands)	2005	2004	% CHANGE
United States	253.4	243.2	4.2%
Europe ^(b)	29.5	24.6	19.9
Japan	11.4	10.3	11.1
Canada	11.7	11.2	4.1
All other markets	11.2	9.3	19.4
Total Harley-Davidson retail sales	317.2	298.6	6.2%

(a) Data source for all 2005 retail sales figures shown above is sales and warranty registrations provided by Harley-Davidson dealers and compiled by the Company. The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision. 2004 retail sales figures shown above conform to sales and warranty registration information as of December 31, 2004, and vary from previously published Motorcycle Industry Council, Giral S.A. and Japan Industry source data.

(b) Europe retail sales includes sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The following table includes industry retail motorcycle registration data:

MOTORCYCLE INDUSTRY RETAIL REGISTRATIONS

Heavyweight (651+cc)

(units in thousands)	2005	2004	% CHANGE
United States ^(a)	517.6	494.0	4.8%
Europe ^(b)	332.8	336.2	(1.0)

(a) U.S. data provided by the Motorcycle Industry Council.

(b) Europe data provided by Giral S.A., includes retail sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

GROSS PROFIT: Gross profit was \$2.04 billion for the Motorcycles segment during 2005, an increase of \$141.0 million or 7.4% over gross profit in 2004. Gross profit margin for 2005 was 38.2% compared to 37.9% during 2004. During 2005, the increase in gross margin was due in large part to the favorable motorcycle product mix shipped during the year. Gross margin also benefited during 2005 from 2006 model year wholesale price increases, lower costs which resulted from manufacturing efficiencies and a decrease in cost related to the Company's short-term incentive compensation plan. However, the positive impact of these changes was partially offset by an increase in raw material costs which were \$34.0 million higher in 2005 than in 2004. The Company will continue to closely monitor raw material prices in 2006.

FINANCIAL SERVICES: The following table includes the condensed statements of operations for the Financial Services segment (which consists of HDFS) for 2005 and 2004:

(in millions)	2005	2004	INCREASE (DECREASE)	% CHANGE
Interest income	\$129.9	\$102.2	\$27.7	27.1%
Income from securitizations	123.1	115.1	8.0	7.0
Other income	78.6	88.0	(9.4)	(10.6)
Financial services income	331.6	305.3	26.3	8.6
Interest expense	36.2	22.7	13.5	59.1
Operating expenses	103.8	94.0	9.8	10.5
Financial services expense	140.0	116.7	23.3	20.0
Operating income from financial services	\$191.6	\$188.6	\$ 3.0	1.6%

Operating income from financial services in 2005 increased slightly over 2004 driven by higher interest and securitization income, partially offset by lower other income and higher interest and operating expenses. During 2005, interest income benefited from increased retail and wholesale average outstanding receivables and higher wholesale lending rates as compared to 2004. The reduction in other income was primarily due to lower revenues from insurance commissions and related products. Interest expense was higher in 2005 due to increased borrowings, in support of higher average outstanding receivables, and higher borrowing costs as compared to 2004.

Income from securitizations in 2005 was higher due to an increase in income on the investment in retained securitization interests, partially offset by lower gains on 2005 securitization transactions. During 2005, income on the investment in retained securitization interests was \$76.6 million, an increase of \$19.8 million over 2004, due primarily to higher income on prior years' securitization transactions.

During 2005, HDFS sold \$2.48 billion in retail motorcycle loans through securitization transactions resulting in gains of \$46.6 million. This compares with gains of \$58.3 million on \$1.88 billion of loans securitized during 2004. The 2005 gain as a percentage of loans sold was 1.9% as compared to 3.1% for 2004. The 2005 gain as a percentage of the amount of loans securitized was lower than the prior year due to rising market interest rates, the competitive environment for motorcycle lending and the full-year cost of an enhanced dealer participation program introduced in May 2004. Under HDFS' dealer participation program, HDFS pays Harley-Davidson dealers for originating retail motorcycle loans. HDFS expects that the gain on the first quarter 2006 securitization transaction, as a percentage of loans sold, will be in the range of 1.0% to 1.4%.⁽¹⁾

Over the long term, the Company expects that the Financial Services operating income growth rate will be slightly higher than the Company's wholesale unit shipment growth rate.⁽¹⁾

Changes in the allowance for credit losses during 2005 and 2004 were as follows:

(in millions)	2005	2004
Balance, beginning of period	\$30.3	\$31.3
Provision for credit losses	3.3	3.1
Charge-offs, net of recoveries	(7.4)	(4.1)
Balance, end of period	\$26.2	\$30.3

HDFS' periodic evaluation of the adequacy of the allowance for credit losses is generally based on HDFS' past loan loss experience, known and inherent risks in the portfolio, and current economic conditions. HDFS believes the allowance is adequate to cover the losses of principal and accrued interest in the existing portfolio.

Included in charge-offs, net of recoveries are \$1.8 million and \$3.7 million of recoveries in 2005 and 2004, respectively, received by HDFS from HDMC. These recoveries relate to guarantees provided by HDMC on wholesale loans to independent European Harley-Davidson dealers.

OPERATING EXPENSES: The following table includes operating expenses for the Motorcycles segment and Corporate for 2005 and 2004:

(in millions)	2005	2004	INCREASE	% CHANGE
Motorcycles	\$740.6	\$710.0	\$30.6	4.3%
Corporate	21.5	16.6	4.9	29.1
Total operating expenses	\$762.1	\$726.6	\$35.5	4.9%

The increase in operating expenses during 2005 was driven primarily by higher costs related to marketing and advertising activities and stock compensation expense, partially offset by a decrease in expense related to the Company's short-term incentive compensation plan. As discussed in Note 1 to the Consolidated Financial Statements, the Company began expensing the cost of its employee stock option awards on January 1, 2005. As a result, the Company recorded \$23.0 million of stock compensation expense in 2005 of which \$18.9 million was included in operating expenses. Operating expenses, which includes selling, administrative and engineering expenses, were 14.3% and 14.5% of net revenue for 2005 and 2004, respectively.

INVESTMENT INCOME, NET: Investment income, net in 2005 was \$22.8 million, compared to \$23.1 million in 2004. Net investment income was lower in 2005 due to a decrease in the average balance of cash and marketable securities on hand; however, this impact was mostly offset by the effect of a higher average return in 2005 when compared to 2004.

OTHER, NET: Other, net expense was \$5.0 million and \$5.1 million in 2005 and 2004, respectively. Other net expense consists of charitable contributions.

CONSOLIDATED INCOME TAXES: The Company's effective income tax rate was 35.5% during both 2005 and 2004. The Company expects that the income tax rate will be 35.5% during 2006.⁽¹⁾

Results of Operations 2004 Compared to 2003

OVERALL: Net revenue for 2004 totaled \$5.02 billion, a \$390.9 million or 8.5% increase over 2003. Net income for 2004 was \$889.8 million compared to \$760.9 million in 2003, an increase of 16.9%. Diluted earnings per share for 2004 were \$3.00 on 296.9 million weighted-average shares outstanding, compared to \$2.50 on 304.5 million weighted-average shares outstanding in 2003, an increase in earnings per share of 20.0%.

The Company paid dividends in 2004 of \$.08 per share in March, \$.10 per share in June and September and \$.125 per share in December. The aggregate annual dividend paid in 2004 was \$.405 per share, representing a 108% increase over the aggregate annual dividend of \$.195 per share in 2003.

MOTORCYCLE UNIT SHIPMENTS AND NET REVENUE: The following table includes wholesale motorcycle unit shipments and net revenue for the Motorcycles segment for 2004 and 2003:

(in millions)	2004	2003	INCREASE (DECREASE)	% CHANGE
Motorcycle Unit Shipments				
Touring motorcycle units	93,305	82,577	10,728	13.0%
Custom motorcycle units*	154,163	151,405	2,758	1.8
Sportster motorcycle units	69,821	57,165	12,656	22.1
Harley-Davidson motorcycle units	317,289	291,147	26,142	9.0
Buell motorcycle units	9,857	9,974	(117)	(1.2)
Total motorcycle units	327,146	301,121	26,025	8.6%
Net Revenue				
Harley-Davidson motorcycles	\$3,928.2	\$3,621.5	\$306.7	8.5%
Buell motorcycles	79.0	76.1	2.9	3.9
Total motorcycles	4,007.2	3,697.6	309.6	8.4
Parts & Accessories	781.6	712.8	68.8	9.7
General Merchandise	223.7	211.4	12.3	5.8
Other	2.7	2.5	0.2	8.0
Net revenue	\$5,015.2	\$4,624.3	\$390.9	8.5%

* Custom motorcycle units, as used in this table, include Softail, Dyna, VRSC and other custom models.

The increase in net revenue for the Motorcycles segment during 2004 was driven by the \$306.7 million or 8.5% increase in Harley-Davidson motorcycle net revenue. Harley-Davidson motorcycle revenue was higher primarily as a result of the 9.0% increase in units shipped. Harley-Davidson motorcycle revenue also benefited from changes in foreign currency exchange rates, which resulted in \$46.4 million of higher revenue during 2004. However, the benefit from exchange rates was offset by lower revenue due to changes in product mix and lower average wholesale prices, as discussed below.

During 2004, Harley-Davidson motorcycle revenue was impacted by changes in product mix related primarily to an increase in the percentage of shipments consisting of lower-priced Sportster motorcycles and a decrease in the percentage of shipments consisting of more expensive Custom motorcycles. Sportsters are an important part of the Company's strategy to

attract new customers to the Harley-Davidson family. The Company introduced a completely redesigned family of Sportster models in September 2003, and demand for the redesigned models has continued to drive increases in Sportster shipments throughout 2004. The percentage of shipments consisting of Sportster motorcycles was 22.0% in 2004, up from 19.6% in 2003. As a result, the percentage of shipments consisting of Custom motorcycles was also impacted during 2004.

Harley-Davidson motorcycle revenue was also impacted by changes in average wholesale prices. Wholesale prices on the 2004 models reflected the elimination of 100th Anniversary special edition features and, as a result, were slightly lower than the wholesale prices for the 100th Anniversary models sold during 2003. Wholesale prices on 2005 model year motorcycles were higher than model year 2004 prices; however, the positive revenue impact from the 2005 model year price increase only partially offset the impact of the lower 2004 model year pricing.

During 2004, net revenue from Parts and Accessories totaled \$781.6 million, a 9.7% increase over 2003. P&A revenue growth in 2004 was driven by the increase in Harley-Davidson motorcycle shipments and also benefited from favorable changes in foreign currency exchange rates. General Merchandise revenue during 2004 was \$223.7 million, up 5.8% over 2003.

HARLEY-DAVIDSON MOTORCYCLE RETAIL SALES: The Company's wholesale motorcycle unit shipments are retailed through an independent worldwide dealer network. Worldwide retail sales of Harley-Davidson motorcycles grew 6.0% during 2004 over the prior year. Retail sales of Harley-Davidson motorcycles increased 7.1% in the United States and 1.6% internationally, when compared to 2003. On an industry-wide basis the heavyweight (651+cc) portion of the market was up 7.1% in the United States and 4.1% in Europe, when compared to 2003. The following table includes retail unit sales of Harley-Davidson motorcycles for 2004 and 2003 (units in thousands):

HARLEY-DAVIDSON MOTORCYCLE RETAIL SALES ^(a) Heavyweight (651+cc)

(in thousands)	2004	2003	% CHANGE
United States	243.2	227.1	7.1%
Europe ^(b)	24.6	26.0	(5.3)
Japan	10.3	10.4	(0.9)
Canada	11.2	9.8	14.6
All other markets	9.3	8.3	11.0
Total Harley-Davidson retail sales	298.6	281.6	6.0%

(a) The Company must rely on information that its dealers supply concerning retail sales and this information is subject to revision. Data source for all 2004 and 2003 retail sales figures shown above is sales and warranty registrations provided by Harley-Davidson dealers and compiled by the Company as of December 31, 2004 and 2003, respectively. The retail sales figures shown above vary from previously published Motorcycle Industry Council, Giral S.A. and Japan Automobile Importers Association data.

(b) Europe retail sales includes sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The following table includes industry retail motorcycle registration data:

MOTORCYCLE INDUSTRY RETAIL REGISTRATIONS
Heavyweight (651+cc)

(in thousands)	2004	2003	% CHANGE
United States ^(a)	494.0	461.2	7.1%
Europe ^(b)	336.2	323.1	4.1%

(a) U.S. data provided by the Motorcycle Industry Council.

(b) Europe data provided by Giral S.A., includes retail sales in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

GROSS PROFIT: Gross profit for 2004 totaled \$1.90 billion, an increase of \$234.0 million or 14.0% over 2003. Gross margin was 37.9% in 2004, up from 36.0% for 2003. During 2004, gross margin was positively impacted by lower production costs and changes in foreign currency exchange rates, which more than offset the impact of product mix changes discussed under "Net Revenue." In 2004, production costs were lower due to manufacturing efficiencies, but also benefited from a new and fully integrated Softail factory in York, Pennsylvania. During the second half of 2003, the Company experienced higher costs and inefficiencies associated with the ramp-up of the new Softail factory. Finally, during 2004, changes in foreign currency exchange rates resulted in \$38.5 million of higher gross profit when compared to 2003.

Price increases in the metal markets during 2004 did not have a significant impact on the Company's gross profit. The majority of the metal market price increases were managed by the Company's suppliers. During 2004, the Company incurred metal surcharges from some of its suppliers of approximately \$9 million.

FINANCIAL SERVICES: The following table includes the condensed statements of operations for the Financial Services segment for 2004 and 2003:

(in millions)	2004	2003	INCREASE	% CHANGE
Interest income	\$102.2	\$ 87.1	\$15.1	17.4%
Income from securitizations	115.1	114.4	0.7	0.6
Other income	88.0	78.0	10.0	12.8
Financial services income	305.3	279.5	25.8	9.2
Interest expense	22.7	17.6	5.1	28.9
Operating expenses	94.0	94.0	0.0	—
Financial services expense	116.7	111.6	5.1	4.5
Operating income from financial services	\$188.6	\$167.9	\$20.7	12.3%

The increase in operating income from financial services in 2004 was driven by continued strong marketplace acceptance of HDFS' finance and insurance products.

During 2004, income from securitizations was up slightly over 2003 as the increase in income on investment in retained securitization interests was mostly offset by lower gains on

current year securitization transactions. During 2004, income on investment in retained securitization interests was \$56.8 million, an increase of \$24.6 million over 2003, due primarily to higher income on prior years' securitization transactions.

During 2004, HDFS sold \$1.88 billion of retail motorcycle loans through securitization transactions resulting in gains of \$58.3 million. During 2003, HDFS sold approximately \$1.75 billion of retail motorcycle loans resulting in gains of \$82.2 million. The gain as a percentage of the amount of loans securitized was lower when compared with the prior year's gain due to rising market interest rates during 2004 and the cost of an enhanced dealer participation program that was introduced in May 2004.

Changes in the allowance for credit losses during 2004 and 2003 were as follows:

(in millions)	2004	2003
Balance, beginning of period	\$31.3	\$31.0
Provision for credit losses	3.1	4.1
Charge-offs, net of recoveries	(4.1)	(3.8)
Balance, end of period	\$30.3	\$31.3

HDFS' periodic evaluation of the adequacy of the allowance for credit losses is generally based on HDFS' past loan loss experience, known and inherent risks in the portfolio, and current economic conditions. HDFS believes the allowance is adequate to cover the losses of principal and accrued interest in the existing portfolio.

Included in charge-offs, net of recoveries are \$3.7 million and \$1.3 million of recoveries in 2004 and 2003, respectively, received by HDFS from HDMC. These recoveries relate to guarantees provided by HDMC on wholesale loans to independent European Harley-Davidson dealers.

OPERATING EXPENSES: The following table includes operating expenses for the Motorcycles segment and Corporate for 2004 and 2003:

(in millions)	2004	2003	INCREASE	% CHANGE
Motorcycles	\$710.0	\$668.7	\$41.3	6.2%
Corporate	16.6	15.5	1.1	7.3
Total operating expenses	\$726.6	\$684.2	\$42.4	6.2%

The increase in operating expenses in 2004 was driven by overall growth in the Motorcycles business combined with the Company's ongoing investment in specific initiatives designed to support its growth objectives. Operating expenses, which include selling, administrative and engineering expenses, were 14.5% and 14.8% of net revenue for 2004 and 2003, respectively.

INVESTMENT INCOME, NET: Investment income, net in 2004 was \$23.1 million, even with \$23.1 million in 2003. In connection with the Company's capacity expansion efforts, \$3.9 million of interest cost was capitalized during 2003; no amounts were capitalized during 2004.

OTHER, NET: Other, net expense was \$5.1 million and \$6.3 million in 2004 and 2003, respectively. Other, net expense consists primarily of charitable contributions in 2004 and 2003.

CONSOLIDATED INCOME TAXES: The Company's effective income tax rate was 35.5% and 34.7% during 2004 and 2003, respectively. The Company's effective income tax rate increased as pretax income grew faster than certain permanent tax differences.

Other Matters

ACCOUNTING CHANGES: As discussed in Note 1 to the Consolidated Financial Statements, the Company began expensing the cost of stock options on January 1, 2005, when it adopted Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) "Share-Based Payment." The Company's total 2005 stock compensation expense, including stock option and nonvested stock awards, was \$23.0 million, or \$14.5 million net of taxes.

CRITICAL ACCOUNTING POLICIES: The Company's financial statements are based on the selection and application of significant accounting policies, which require management to make significant estimates and assumptions. Management believes that the following are some of the more critical judgment areas in the application of accounting policies that currently affect the Company's financial condition and results of operations.

Finance Receivable Securitizations

The Company sells retail motorcycle loans through securitization transactions utilizing qualifying special purpose entities (QSPEs) as defined by SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Upon sale of retail loans in a securitization transaction, HDFS receives cash and retains an interest in excess cash flows, servicing rights and cash reserve account deposits, all of which are collectively referred to as retained interests in the securitized receivables. Retained interests are carried at fair value and periodically reviewed for impairment. Market value quotes are generally not available for retained interests; therefore, HDFS estimates fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions for credit losses, prepayment speeds and discount rates. The impact of changes to key assumptions is shown in Note 4 to the Consolidated Financial Statements.

Gains on current year securitizations from the sale of retail loans are recorded as a component of financial services income and are based in part on certain assumptions including expected credit losses, prepayment speed, and discount rates. Gains on sales of retail loans also depend on the original carrying amount of the retail loans, which is allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

Finance Receivable Credit Losses

The allowance for uncollectible accounts is maintained at a level management believes is adequate to cover the losses of principal and accrued interest in the existing finance receivables portfolio. Management's periodic evaluation of the adequacy of the allowance is generally based on HDFS' past loan loss experience, known and inherent risks in the portfolio, current economic conditions, specific borrower's ability to repay and the estimated value of any underlying collateral.

Pensions and Other Postretirement Benefits

Retirement Plan (Pension, SERPA and Postretirement health care) obligations and costs are developed from actuarial valuations. The valuation of benefit obligations and net periodic benefit costs relies on key assumptions including discount rates, long-term expected return on plan assets, future compensation and healthcare cost trend rates. The Company evaluates and updates all of its assumptions annually on September 30, the actuarial measurement date. As of its most recent measurement date the Company lowered its discount rate assumption from 6.25% to 5.5%, and reset its assumption for healthcare cost trend rates. These changes were reflected immediately in the benefit obligation and will be amortized into net periodic benefit costs over future periods, resulting in an increase in future service and interest costs.

The discount rate and healthcare cost trend rate assumptions are impacted by short-term changes in external economic factors and as result they can be volatile. The Company's 2006 Retirement Plan costs have already been determined in connection with the September 30, 2005 measurement process. However, a change in either of these two assumptions could have an impact on the valuation of costs as of the Company's next measurement date, September 30, 2006. The following information is provided to illustrate the sensitivity of these obligations and costs to changes in these major assumptions:

(in thousands)	AMOUNTS BASED ON CURRENT ASSUMPTIONS	IMPACT OF A 1% DECREASE IN THE DISCOUNT RATE	IMPACT OF A 1% INCREASE IN THE HEALTHCARE COST TREND RATE
2005 Net periodic benefit costs			
Pension and SERPA	\$ 47,845	\$ 19,004	n/a
Postretirement healthcare	\$ 24,521	\$ 3,626	\$ 1,606
2005 Benefit obligations			
Pension and SERPA	\$963,824	\$166,366	n/a
Postretirement healthcare	\$298,340	\$ 38,820	\$ 15,639

This information should not be viewed as predictive of future amounts. The calculation of Retirement Plan obligations and costs is based on many factors in addition to those discussed here. This information should be considered in combination with the information provided in Note 7 to the Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS: A summary of the Company's expected payments for significant contractual obligations as of December 31, 2005 is as follows:

(in thousands)	2006	2007- 2008	2009- 2010	THEREAFTER	TOTAL
Principal payments on finance debt	\$204,973	\$415,288	\$584,712	\$ —	\$1,204,973
Interest payments on finance debt	49,999	86,337	30,415	—	166,751
Operating lease payments	7,449	8,055	6,669	12,852	35,025
	\$ 262,421	\$ 509,680	\$ 621,796	\$ 12,852	\$ 1,406,749

- As described in Note 4 to the Consolidated Financial Statements, as of December 31, 2005, long-term finance debt issued by HDFS includes outstanding commercial paper and advances under the Global Credit Facility totaling \$385 million. The amount classified as long term is supported by the Global Credit Facility, due September 2009; accordingly, the Company has assumed that this amount will be repaid in 2009.
- Interest obligations include the impact of interest rate hedges outstanding as of December 31, 2005. Interest for floating rate instruments, as calculated above, assumes December 31, 2005 rates are constant.
- As of December 31, 2005, the Company had no material purchase obligations other than those created in the ordinary course of business related to inventory and property, plant and equipment which generally have terms of less than 90 days.
- The Company has long-term obligations related to its pension and postretirement plans at December 31, 2005. Due to the current funded status of the pension plans, the Company has no minimum funding requirements for 2006. The Company's expected future contributions to these plans are provided in Note 7 to the Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS: As part of its securitization program, HDFS transfers retail motorcycle loans to a special purpose bankruptcy-remote wholly-owned subsidiary. The subsidiary sells the retail loans to a securitization trust in exchange for the proceeds from asset-backed securities issued by the securitization trust. The asset-backed securities, usually notes with various maturities and interest rates, are secured by future collections of the purchased retail installment loans. Activities of the securitization trust are limited to acquiring retail loans, issuing asset-backed securities and making payments on securities to investors. Due to the nature of the assets held by the securitization trust and the limited nature of its activities, the securitization trusts are considered QSPEs as defined by SFAS No. 140. In accordance with SFAS No. 140, assets and liabilities of the QSPEs are not consolidated in the financial statements of the Company.

HDFS does not guarantee payments on the securities issued by the securitization trusts or the projected cash flows from the related loans purchased from HDFS. The Company's retained securitization interests, excluding servicing rights, are subordinate to the interests of securitization trust investors. Such investors have priority interests in the cash collections on the retail loans sold to the securitization trust (after payment of servicing fees) and in the cash reserve account deposits. These priority interests ultimately could impact the value of the Company's investment in retained securitization interests.

Investors also do not have recourse to assets of HDFS for failure of the obligors on the retail loans to pay when due. Total investment in retained securitization interests at December 31, 2005 was \$349.7 million. The securitization trusts have a limited life and generally terminate upon final distribution of amounts owed to the investors in the asset-backed securities. See Note 4 to the Consolidated Financial Statements for further discussion of HDFS' securitization program.

COMMITMENTS AND CONTINGENCIES: The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

Shareholder Lawsuits

A number of shareholder class action lawsuits were filed between May 18, 2005 and July 1, 2005 in the United States District Court for the Eastern District of Wisconsin against the Company and some or all of the following Company officers: Jeffrey L. Bleustein, James M. Brostowitz, Jon R. Flickinger, John A. Hevey, Ronald M. Hutchinson, Gail A. Lione, James A. McCaslin, W. Kenneth Sutton, Jr., Donna F. Zarcone and James L. Ziemer. The complaints allege securities law violations and seek unspecified damages relating generally to the Company's April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments from 317,000 units in 2004 to a new 2005 target of 329,000 units (compared to its original target of 339,000 units).

Three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin on June 3, 2005, October 25, 2005 (this lawsuit was later voluntarily dismissed) and December 2, 2005 and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005 against some or all of the following directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr., and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allegations that officers and directors breached their fiduciary duties to the Company.

On July 11, 2005, the staff of the Enforcement Division of the United States Securities and Exchange Commission ("SEC") advised the Company that it is inquiring into matters relating generally to the Company's April 13, 2005 announcement and certain allegations contained in the shareholder complaints. The Company is cooperating with the SEC.

On August 25, 2005, a class action lawsuit alleging violations of the Employee Retirement Income Security Act (“ERISA”) was filed in the United States District Court for the Eastern District of Wisconsin against the Company, the Administrative Committee of Harley-Davidson, Inc., and the following Company employees, officers, and directors: Harold A. Scott, James M. Brostowitz, James L. Ziemer, Gail A. Lione, Barry K. Allen, Richard I. Beattie, Jeffrey L. Bleustein, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., and James A. Norling. In general, the ERISA complaint includes factual allegations similar to those in the shareholder class action lawsuits and alleges on behalf of participants in certain Harley-Davidson retirement savings plans that the plan fiduciaries breached their ERISA fiduciary duties.

The Company believes the allegations against all of the defendants in the lawsuits against the Company are without merit and it intends to vigorously defend against them. Since all of these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

Cam Bearing Lawsuits

In January 2001, the Company, on its own initiative, notified each owner of 1999 and early-2000 model year Harley-Davidson motorcycles equipped with Twin Cam 88® and Twin Cam 88B™ engines that the Company was extending the warranty for a rear cam bearing to 5 years or 50,000 miles. Subsequently, on June 28, 2001, a putative nationwide class action was filed against the Company in state court in Milwaukee County, Wisconsin, which was amended by a complaint filed September 28, 2001. The complaint alleged that this cam bearing is defective and asserted various legal theories. The complaint sought unspecified compensatory and punitive damages for affected owners, an order compelling the Company to repair the engines, and other relief. On February 27, 2002, the Company’s motion to dismiss the amended complaint was granted by the Court and the amended complaint was dismissed in its entirety. An appeal was filed with the Wisconsin Court of Appeals. On April 12, 2002, the same attorneys filed a second putative nationwide class action against the Company in state court in Milwaukee County, Wisconsin relating to this cam bearing issue and asserting different legal theories than in the first action. The complaint sought unspecified compensatory damages, an order compelling the Company to repair the engines and other relief. On September 23, 2002, the Company’s motion to dismiss was granted by the Court, the complaint was dismissed in its entirety, and no appeal was taken. On January 14, 2003, the Wisconsin Court of Appeals reversed the trial court’s February 27, 2002 dismissal of the complaint in the first action, and the Company petitioned the Wisconsin Supreme Court for review. On March 26, 2004, the Wisconsin Supreme Court reversed the Court of Appeals and dismissed the remaining claims in the action. On

April 12, 2004, the same attorneys filed a third action in the state court in Milwaukee County, on behalf of the same plaintiffs from the action dismissed by the Wisconsin Supreme Court. This third action was dismissed by the court on July 26, 2004. In addition, the plaintiffs in the original case moved to reopen that matter and amend the complaint to add new causes of action. On September 9, 2004, Milwaukee County Circuit Court refused to allow the reopening or amendment. Plaintiffs again appealed to the Wisconsin Court of Appeals, and on December 13, 2005, the Court of Appeals again reversed the trial court. The Company has filed a petition for review with the Wisconsin Supreme Court, asking it to reinstate the trial court’s decision. The Company believes that the 5-year/50,000 mile warranty extension it announced in January 2001 adequately addressed the condition for affected owners, and the Company intends to continue to vigorously defend this matter.

Environmental Matters

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania, facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS).

In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

In February 2002, the Company was advised by the U.S. Environmental Protection Agency (EPA) that it considers some of the Company’s remediation activities at the York facility to be subject to the EPA’s corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the “One Cleanup Program.” The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still under way and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates

that its share of the future Response Costs at the York facility will be approximately \$7.0 million. The Company has established reserves for this amount, which are included in Accrued Expenses and Other Liabilities in the Consolidated Balance Sheets.

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date, and the estimated costs to complete the necessary investigation and remediation activities. Response Costs related to the remediation of soil are expected to be incurred over a period of several years ending in 2010. Response Costs related to ground water remediation may continue for some time beyond 2010. However, these Response Costs are expected to be much lower than those related to the remediation of soil.

Under the terms of the sale of the Commercial Vehicles Division in 1996, the Company has agreed to indemnify Utilmaster Corporation, until 2008, for certain claims related to environmental contamination present at the date of sale, up to \$20.0 million. Based on the environmental studies performed the Company does not expect to incur any material expenditures under this indemnification.

Product Liability Matters

Additionally, the Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability will not have a material adverse effect on the Company's Consolidated Financial Statements.

Liquidity and Capital Resources as of December 31, 2005

The Company's financial condition and cash-generating capability are fundamental strengths and provide substantial flexibility in meeting the operating, investing and financing needs of the Company. This flexibility allows the Company to pursue its growth strategies and to enhance shareholder value through repurchasing common stock and paying dividends. The Company also has a commercial paper program, credit facilities and debt instruments in place to support the ongoing cash requirements of its Financial Services business.

CASH AND MARKETABLE SECURITIES: Cash and marketable securities totaled \$1.05 billion as of December 31, 2005 compared to \$1.61 billion as of December 31, 2004. The decline is primarily attributable to common stock repurchases, higher dividend payments and benefit plan funding, all of which are discussed in more detail below. The Company's cash and cash equivalents are invested in short-term securities to provide for immediate operating cash needs. The Company also invests in marketable securities consisting primarily of investment-grade debt instruments such as corporate bonds and government backed securities with contractual maturities of approximately 1 year.

Marketable securities also include auction rate securities which have contractual maturities of up to 30 years, but have interest re-set dates that occur every 90 days or less and can be actively marketed at ongoing auctions that occur every 90 days or less.

OPERATING ACTIVITIES: The Company's primary source of ongoing liquidity is cash flow from operations. The Company generated \$960.5 million of cash from operating activities during 2005 compared to \$832.2 million in 2004. In 2005, cash flows from operating activities included the impact of Company payments totaling \$296.9 million to fund pension and postretirement healthcare benefits.

The Company's cash flow from operating activities includes cash flows related to finance receivables held for sale. Prior to December 2005, the Company classified the cash flow effects of finance receivables held for sale as an investing activity in its Statements of Cash Flows. All prior period amounts have been reclassified to conform to the current presentation. The effect of the reclassification on prior year net cash provided by operating activities and net cash used in investing activities is summarized in Note 1 to the Consolidated Financial Statements.

During 2005 and 2004, HDFS originated \$2.45 billion and \$2.07 billion, respectively, of finance receivables that were classified as held for sale. Collections on finance receivables held for sale and proceeds from the sale of finance receivables resulted in cash inflows of \$2.6 billion and \$1.9 billion during 2005 and 2004, respectively.

INVESTING ACTIVITIES: The Company's investing activities consist primarily of capital expenditures, finance receivables activity and net changes in marketable securities. Net cash provided by investing activities was \$177.1 million in 2005, compared to a use of \$570.2 million during 2004.

Sales and redemptions of marketable securities net of purchases provided \$431.1 million during 2005. Marketable securities balances were reduced during 2005 primarily for the purpose of funding a portion of the Company's repurchase of common stock during the year. During 2004, the Company increased its investment in marketable securities resulting in a reduction to cash of \$349.0 million.

Capital expenditures were \$198.4 million and \$213.6 million during 2005 and 2004, respectively. The Company estimates that total capital expenditures required in 2006 will be in the range of \$250.0 to \$275.0 million.⁽¹⁾ The Company anticipates it will have the ability to fund all capital expenditures in 2006 with internally generated funds.⁽¹⁾

FINANCING ACTIVITIES: The Company's financing activities consist primarily of stock transactions, dividend payments and finance debt activity. Net cash used in financing activities during 2005 and 2004 was \$1.27 billion and \$316.1 million, respectively.

During 2005, the Company repurchased 21.4 million shares of its common stock at a total cost of \$1.05 billion. The Company repurchased 20.0 million shares under a general authorization

received from the Company's Board of Directors in 2004. The remaining 1.4 million shares were repurchased under an authorization from the Company's Board of Directors that is designed to provide the Company with continuing authority to repurchase shares to offset dilution caused by the exercise of stock options. On April 30, 2005, the Company's Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. No repurchases had been made under this authorization as of the end of 2005. Please see Note 8 for additional detail regarding the Company's share repurchase activity and authorizations. During 2004, the Company repurchased 10.6 million shares of its common stock at a total cost of \$564.1 million.

The Company paid four dividends of \$.125 per share, \$.16 per share, \$.16 per share and \$.18 per share during 2005, at a total cost of \$173.8 million, compared to dividends of \$.08 per share, \$.10 per share, \$.10 per share and \$.125 per share totaling \$119.2 million during 2004.

In addition to operating cash flow and asset-backed securitizations, HDFS is financed by the issuance of commercial paper, borrowings under the revolving credit facility, medium-term notes, senior subordinated debt and borrowings from the Company. HDFS' outstanding debt consisted of the following as of December 31:

(in thousands)	2005	2004
Commercial paper	\$ 416,797	\$ 702,147
Credit facilities	172,965	168,309
	589,762	870,456
Medium-term notes	585,211	394,985
Senior subordinated notes	30,000	30,000
	\$1,204,973	\$1,295,441

Credit Facilities

HDFS has a \$1.10 billion revolving credit facility (Global Credit Facility) due September 2009. Subject to certain limitations, HDFS has the option to borrow in various currencies. Interest is based on London interbank offered rates (LIBOR), European interbank offered rates or other short-term indices, depending on the type of advance. The Global Credit Facility is a committed facility and HDFS pays a fee for its availability.

Commercial Paper

Subject to limitations, HDFS may issue commercial paper of up to \$1.10 billion. Maturities may range up to 365 days from the issuance date. Outstanding commercial paper may not exceed the unused portion of the Global Credit Facility. As a result, the combined total of commercial paper and borrowings under the Global Credit Facility was limited to \$1.10 billion as of December 31, 2005.

Medium-Term Notes

HDFS has \$400.0 million of 3.63% medium-term notes outstanding which are due in December 2008, and during December 2005, issued \$200.0 million of 5% medium-term notes due in December 2010 (collectively referred to as "Notes"). The Notes provide for semi-annual interest payments and

principal due at maturity. At December 31, 2005, the Notes included a fair value adjustment reducing the balance by \$14.7 million due to interest rate swap agreements designated as fair value hedges. The effect of the interest rate swap agreements is to convert the interest rate on the Notes from a fixed to a floating rate, which is based on 3-month LIBOR.

Senior Subordinated Debt

HDFS has \$30.0 million of 10 year senior subordinated notes outstanding which are due in 2007.

Intercompany Borrowing

HDFS has a revolving credit line with the Company whereby HDFS may borrow up to \$210.0 million from the Company at a market interest rate. As of December 31, 2005 and December 31, 2004, HDFS had no outstanding borrowings owed to the Company under this agreement.

The Company has a support agreement with HDFS whereby, if required, the Company agrees to provide HDFS with financial support in order to maintain certain financial covenants. Support may be provided at the Company's option as capital contributions or loans. Accordingly, certain debt covenants may restrict the Company's ability to withdraw funds from HDFS outside the normal course of business. No amount has ever been provided to HDFS under the support agreement.

HDFS is subject to various operating and financial covenants related to the Global Credit Facility and the Notes and remains in compliance at December 31, 2005.

The Company expects that future activities of HDFS will be financed from funds internally generated by HDFS, the sale of loans through securitization programs, issuance of commercial paper and medium-term notes, borrowings under revolving credit facilities, advances or loans from the Company and subordinated debt.⁽¹⁾

CAUTIONARY STATEMENTS: The Company's ability to meet the targets and expectations noted in this report depends upon, among other factors, the Company's ability to (1) continue to realize production efficiencies at its production facilities and effectively manage operating costs including materials, labor and overhead; (2) successfully manage production capacity and production changes; (3) avoid unexpected supply chain issues; (4) provide products, services and experiences that are successful in the marketplace; (5) develop and implement sales and marketing plans that retain existing customers and attract new customers in an increasingly competitive marketplace; (6) sell all of its motorcycles and related products and services to its independent dealers and distributors; (7) continue to develop the capacity of its distributor and dealer network; (8) avoid unexpected changes and prepare for known requirements in legislative and regulatory environments for its products and operations; (9) successfully adjust to fluctuations in foreign currency exchange rates, interest rates and commodity prices; (10) adjust to worldwide economic and political conditions, including changes in fuel prices and interest rates; (11) successfully manage the credit quality and recovery rates of HDFS's loan portfolio; (12) retain and attract talented

employees; and (13) detect any defects in our motorcycles to minimize delays in new model launches, recall campaigns, increased warranty costs or litigation. In addition, the Company could experience delays in the operation of manufacturing facilities as a result of work stoppages, natural causes, terrorism or other factors. These risks, potential delays and uncertainties regarding the costs could also adversely impact the Company's capital expenditure estimates (see "Liquidity and Capital Resources" section).

The Company's ability to sell all of its motorcycles and related products and services also depends on the ability of the Company's independent dealer network to sell them to retail customers. The Company depends on the capability of its independent dealers and distributors to develop and implement effective retail sales plans to create demand for the motorcycles and related products and services they purchase from the Company.

In addition, the Company's independent dealers and distributors may experience difficulties in selling Harley-Davidson motorcycles and related products and services as a result of weather, economic conditions or other factors.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to market risk from changes in foreign exchange rates and interest rates. To reduce such risks, the Company selectively uses derivative financial instruments. All hedging transactions are authorized and executed pursuant to regularly reviewed policies and procedures, which prohibit the use of financial instruments for trading purposes. Sensitivity analysis is used to manage and monitor foreign exchange and interest rate risk.

A discussion of the Company's accounting policies for derivative financial instruments is included in the Summary of Significant Accounting Policies in Note 1 to the Consolidated Financial Statements and further disclosure relating to the fair value of derivative financial instruments is included in Note 11 to the Consolidated Financial Statements.

The Company sells its products internationally and in most markets those sales are made in the foreign country's local currency. As a result, the Company's earnings can be affected by fluctuations in the value of the U.S. dollar relative to foreign currency. The Company utilizes foreign currency contracts to mitigate the effect of these fluctuations on earnings. The foreign currency contracts are entered into with banks and allow the Company to exchange a specified amount of foreign currency for U.S. dollars at a future date, based on a fixed exchange rate. At December 31, 2005, these contracts represented a combined U.S. dollar equivalent of \$150.0 million. The Company estimates that a uniform 10% weakening in the value of the dollar relative to the currency underlying these contracts would result in a decrease in the fair value of the contracts of approximately \$17.9 million as of December 31, 2005.

The Company's exposure to the Japanese yen is substantially offset by the existence of a natural hedge, which is sustained through offsetting yen cash inflows from sales with yen cash outflows for motorcycle component purchases and other operating expenses.

HDFS' earnings are affected by changes in interest rates. HDFS utilizes interest rate swaps to reduce the impact of fluctuations in interest rates on its securitization transactions and debt. As of December 31, 2005, HDFS had interest rate swaps outstanding with a notional value of \$976.2 million. HDFS estimates that a 10% increase in interest rates would result in a \$4.8 million decrease in the fair value of the agreements.

Consolidated Statements of Income

(In thousands, except per-share amounts)

YEARS ENDED DECEMBER 31,	2005	2004	2003
Net revenue	\$5,342,214	\$5,015,190	\$4,624,274
Cost of goods sold	3,301,715	3,115,655	2,958,708
Gross profit	2,040,499	1,899,535	1,665,566
Financial services income	331,618	305,262	279,459
Financial services expense	139,998	116,662	111,586
Operating income from financial services	191,620	188,600	167,873
Selling, administrative and engineering expense	762,108	726,644	684,175
Income from operations	1,470,011	1,361,491	1,149,264
Investment income, net	22,797	23,101	23,088
Other, net	(5,049)	(5,106)	(6,317)
Income before provision for income taxes	1,487,759	1,379,486	1,166,035
Provision for income taxes	528,155	489,720	405,107
Net income	\$ 959,604	\$ 889,766	\$ 760,928
Basic earnings per common share	\$3.42	\$3.02	\$2.52
Diluted earnings per common share	\$3.41	\$3.00	\$2.50
Cash dividends per common share	\$.625	\$.405	\$.195

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheets

(In thousands, except share amounts)

DECEMBER 31, 2005 AND 2004

2005

2004

ASSETS

Current assets:

Cash and cash equivalents	\$ 140,975	\$ 275,159
Marketable securities	905,197	1,336,909
Accounts receivable, net	122,087	121,333
Finance receivables held for sale	299,373	456,516
Finance receivables held for investment, net	1,342,393	1,167,522
Inventories	221,418	226,893
Deferred income taxes	61,285	60,517
Prepaid expenses and other current assets	52,509	38,337
Total current assets	3,145,237	3,683,186

Finance receivables held for investment, net	600,831	488,262
Property, plant and equipment, net	1,011,612	1,024,665
Prepaid pension costs	368,165	133,322
Goodwill	56,563	59,456
Other assets	72,801	94,402
	\$ 5,255,209	\$ 5,483,293

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 270,614	\$ 244,202
Accrued expenses and other liabilities	397,525	433,053
Current portion of finance debt	204,973	495,441
Total current liabilities	873,112	1,172,696

Finance debt	1,000,000	800,000
Deferred income taxes	155,236	51,432
Postretirement healthcare benefits	60,975	149,848
Other long-term liabilities	82,281	90,846

Commitments and contingencies (Note 6)

Shareholders' equity:

Series A Junior participating preferred stock, none issued	—	—
Common stock, 330,961,869 and 329,908,165 shares issued in 2005 and 2004, respectively	3,310	3,300
Additional paid-in capital	596,239	533,068
Retained earnings	4,630,390	3,844,571
Accumulated other comprehensive income (loss)	58,653	(12,096)
	5,288,592	4,368,843
Less:		
Treasury stock (56,960,213 and 35,597,360 shares in 2005 and 2004, respectively), at cost	(2,204,987)	(1,150,372)
Total shareholders' equity	3,083,605	3,218,471
	\$ 5,255,209	\$ 5,483,293

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In thousands)

YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 959,604	\$ 889,766	\$ 760,928
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	205,705	214,112	196,918
Provision for long-term employee benefits	71,354	62,806	76,422
Provision for share-based payments	22,974	—	—
Gain on current year securitizations	(46,581)	(58,302)	(82,221)
Net change in wholesale finance receivables	(161,342)	(154,124)	(154,788)
Origination of retail finance receivables held for sale	(2,447,320)	(2,069,713)	(1,897,719)
Collections on retail finance receivables held for sale	124,462	84,310	107,510
Proceeds from securitization of retail finance receivables	2,450,920	1,847,895	1,724,060
Contributions to pension and postretirement plans	(296,859)	—	(192,000)
Tax benefit from the exercise of stock options	—	51,476	13,805
Deferred income taxes	48,289	(41,513)	42,105
Other, net	34,389	30,371	20,127
Net changes in current assets and current liabilities	(5,085)	(24,866)	(18,644)
Total adjustments	906	(57,548)	(164,425)
Net cash provided by operating activities	960,510	832,218	596,503
Cash flows from investing activities:			
Capital expenditures	(198,389)	(213,550)	(227,230)
Origination of finance receivables held for investment	(336,412)	(324,931)	(192,482)
Collections on finance receivables held for investment	179,974	190,360	145,195
Collection of retained securitization interests	115,346	125,732	118,113
Purchase of marketable securities	(1,352,428)	(1,091,326)	(1,538,548)
Sales and redemptions of marketable securities	1,783,503	742,284	1,145,000
Purchase of remaining interest in joint venture	—	(9,500)	—
Other, net	(14,497)	10,689	9,690
Net cash provided by (used) in investing activities	177,097	(570,242)	(540,262)
Cash flows from financing activities:			
Proceeds from issuance of medium-term notes	199,974	—	399,953
Net (decrease) increase in finance credit facilities and commercial paper	(280,694)	305,047	(175,835)
Dividends paid	(173,785)	(119,232)	(58,986)
Purchase of common stock for treasury	(1,054,615)	(564,132)	(103,880)
Excess tax benefits from share-based payments	6,065	—	—
Issuance of common stock under employee stock option plans	31,264	62,171	19,378
Net cash (used) provided by financing activities	(1,271,791)	(316,146)	80,630
Net (decrease) increase in cash and cash equivalents	(134,184)	(54,170)	136,871
Cash and cash equivalents:			
At beginning of year	275,159	329,329	192,458
At end of year	\$ 140,975	\$ 275,159	\$ 329,329

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

(In thousands, except share amounts)

	COMMON STOCK	
	ISSUED SHARES	BALANCE
Balance December 31, 2002	325,298,404	\$3,254
Comprehensive income:		
Net income	—	—
Other comprehensive income (loss):		
Foreign currency translation adjustment	—	—
Minimum pension liability adjustment, net of taxes of \$(45,383)	—	—
Change in net unrealized gains (losses):		
Investment in retained securitization interests, net of taxes of \$(3,266)	—	—
Derivative financial instruments, net of tax benefit of \$3,057	—	—
Marketable securities, net of tax benefit of \$1,333	—	—
Comprehensive income		
Dividends	—	—
Repurchase of common stock	—	—
Amortization of unearned compensation	—	—
Exercise of stock options	1,190,887	12
Tax benefit of stock options	—	—
Balance December 31, 2003	326,489,291	\$3,266
Comprehensive income:		
Net income	—	—
Other comprehensive income (loss):		
Foreign currency translation adjustment	—	—
Minimum pension liability adjustment, net of tax benefit of \$38,230	—	—
Change in net unrealized gains (losses):		
Investment in retained securitization interests, net of tax benefit of \$367	—	—
Derivative financial instruments, net of tax benefit of \$1,766	—	—
Marketable securities, net of tax benefit of \$2,075	—	—
Comprehensive income		
Dividends	—	—
Repurchase of common stock	—	—
Exercise of stock options	3,418,874	34
Tax benefit of stock options	—	—
Balance December 31, 2004	329,908,165	\$3,300
Comprehensive income:		
Net income	—	—
Other comprehensive income (loss):		
Foreign currency translation adjustment	—	—
Minimum pension liability adjustment, net of taxes of \$(37,025)	—	—
Change in net unrealized gains (losses):		
Investment in retained securitization interests, net of taxes of \$(2,179)	—	—
Derivative financial instruments, net of taxes of \$(15,353)	—	—
Marketable securities, net of tax benefit of \$243	—	—
Comprehensive income		
Dividends	—	—
Repurchase of common stock	—	—
Share-based compensation	—	—
Issuance of nonvested stock	115,801	1
Exercise of stock options	937,903	9
Excess tax benefit of stock option exercises	—	—
Balance December 31, 2005	330,961,869	\$3,310

The accompanying notes are an integral part of the Consolidated Financial Statements.

ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER COMPREHENSIVE INCOME(LOSS)	TREASURY BALANCE	UNEARNED COMPENSATION	TOTAL
\$386,284	\$2,372,095	\$(46,266)	\$ (482,360)	\$(92)	\$2,232,915
—	760,928	—	—	—	760,928
—	—	19,609	—	—	19,609
—	—	74,361	—	—	74,361
—	—	6,220	—	—	6,220
—	—	(4,596)	—	—	(4,596)
—	—	(2,154)	—	—	(2,154)
					854,368
—	(58,986)	—	—	—	(58,986)
—	—	—	(103,880)	—	(103,880)
—	—	—	—	92	92
19,366	—	—	—	—	19,378
13,805	—	—	—	—	13,805
\$419,455	\$3,074,037	\$ 47,174	\$ (586,240)	\$ —	\$2,957,692
—	889,766	—	—	—	889,766
—	—	9,399	—	—	9,399
—	—	(62,110)	—	—	(62,110)
—	—	(691)	—	—	(691)
—	—	(2,479)	—	—	(2,479)
—	—	(3,389)	—	—	(3,389)
					830,496
—	(119,232)	—	—	—	(119,232)
—	—	—	(564,132)	—	(564,132)
62,137	—	—	—	—	62,171
51,476	—	—	—	—	51,476
\$533,068	\$3,844,571	\$(12,096)	\$(1,150,372)	\$ —	\$3,218,471
—	959,604	—	—	—	959,604
—	—	(18,005)	—	—	(18,005)
—	—	60,155	—	—	60,155
—	—	4,001	—	—	4,001
—	—	24,992	—	—	24,992
—	—	(394)	—	—	(394)
					1,030,353
—	(173,785)	—	—	—	(173,785)
—	—	—	(1,054,615)	—	(1,054,615)
24,117	—	—	—	—	24,117
(1)	—	—	—	—	—
31,255	—	—	—	—	31,264
7,800	—	—	—	—	7,800
\$596,239	\$4,630,390	\$ 58,653	\$(2,204,987)	\$ —	\$3,083,605

HARLEY-DAVIDSON, INC.

*Notes to Consolidated Financial Statements***1. Summary of Significant Accounting Policies***Principles of Consolidation and Basis of Presentation*

The Consolidated Financial Statements include the accounts of Harley-Davidson, Inc. and its subsidiaries (the Company), including the accounts of the groups of companies doing business as Harley-Davidson Motor Company (HDMC), Buell Motorcycle Company (BMC) and Harley-Davidson Financial Services (HDFS).

All of the Company's subsidiaries are wholly owned and are included in the Consolidated Financial Statements. All of the Company's international subsidiaries use the respective local currency as their functional currency. Assets and liabilities of international subsidiaries have been translated at period-end exchange rates, and income and expenses have been translated using average exchange rates for the period.

During 2003, the Company participated in a joint venture with Porsche AG, of which the Company owned a 51% share. The accounts of the joint venture with Porsche AG were included in the Company's 2003 Consolidated Financial Statements, adjusted to reflect Porsche AG's interest in operating results and net assets. In January 2004, the Company increased its ownership share to 100% by purchasing Porsche AG's 49% interest in the joint venture. See Note 3 for additional detail.

In connection with securitization transactions, HDFS utilizes Qualifying Special Purpose Entities (QSPEs) as defined by Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Assets and liabilities of the QSPEs are not consolidated in the financial statements of the Company. For further discussion of QSPEs and securitization transactions see "Finance receivable securitizations," which follows.

The Company operates in two principal business segments: Motorcycles and Related Products (Motorcycles) and Financial Services (Financial Services). All intercompany accounts and material transactions are eliminated, except for amounts related primarily to: (1) interest paid by HDMC to HDFS on behalf of HDMC's independent dealers as a way to manage seasonal increases in inventory; and (2) amounts paid by HDMC to reimburse HDFS for certain European wholesale finance receivables credit losses. See Note 4 for additional detail related to these items.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Marketable Securities

The Company has investments in marketable securities consisting primarily of investment-grade debt instruments such as corporate bonds and government-backed securities of \$535.9 million and \$522.8 million at December 31, 2005 and 2004, respectively, with contractual maturities of approximately 1 year. Marketable securities also include auction rate securities of \$369.3 million and \$814.1 million at December 31, 2005 and 2004, respectively, with contractual maturities of up to 30 years. The auction rate securities have interest re-set dates that occur every 90 days or less and can be actively marketed at ongoing auctions that occur every 90 days or less.

The Company classifies its investments in marketable securities as available for sale, thus requiring the Company to carry them at their fair value with any unrealized gains or losses reported in other comprehensive income. Net unrealized losses, net of taxes, included in other comprehensive income as of December 31, 2005 and 2004 were \$5.3 million and \$4.9 million, respectively. Gains and losses realized on sales of marketable securities are included in investment income and were not significant.

Finance Receivables Credit Losses

The provision for credit losses on finance receivables is charged to earnings in amounts sufficient to maintain the allowance for uncollectible accounts at a level HDFS believes is adequate to cover the losses of principal and accrued interest in the existing portfolio. HDFS' periodic evaluation of the adequacy of the allowance is generally based on HDFS' past loan loss experience, known and inherent risks in the portfolio, and current economic conditions. HDFS' wholesale and other large loan charge-off policy is based on a loan-by-loan review which considers the specific borrower's ability to repay and the estimated value of any collateral.

Retail loans are generally charged-off at 120 days contractually past due. All finance receivables accrue interest until either collected or charged-off. Accordingly, as of December 31, 2005 and 2004, all finance receivables are accounted for as interest-earning receivables.

Finance Receivables Held for Sale

U.S. retail motorcycle loans intended for securitization at origination are classified as finance receivables held for sale. These finance receivables held for sale in the aggregate are carried at the lower of cost or estimated fair value. Finance receivables held for sale are held for a short period of time prior to being securitized, and have a cost basis that approximates fair value. Cash flows related to finance receivables held for sale are included in cash flows from operating activities.

Reclassification of Finance Receivables Held for Sale

In prior years, finance receivables held for sale were not separately classified; therefore, prior years' balance sheets have been reclassified to conform to the current presentation. In addition cash flows relating to finance receivables held for sale were previously reported in cash flows from investing activities and have been reclassified to cash flows from operating activities to conform to the current presentation. As a result of the reclassifications, cash flows from operating activities were decreased by \$137.5 million and \$66.1 million during the years ended December 31, 2004 and 2003, respectively, offset by increases in cash flows from investing activities in the same amounts.

Finance Receivable Securitizations

HDFS sells retail motorcycle loans through securitization transactions. Under the terms of securitization transactions, HDFS sells retail loans to a securitization trust utilizing the two-step process described below. The securitization trust issues notes to investors, with various maturities and interest rates, secured by future collections of purchased retail loans. The proceeds from the issuance of the asset-backed securities are utilized by the securitization trust to purchase retail loans from HDFS.

Upon sale of the retail loans to the securitization trust, HDFS receives cash and also retains an interest in excess cash flows, servicing rights, and the right to receive cash reserve account deposits in the future, collectively referred to as "investment in retained securitization interests." The investment in retained securitization interests is included with finance receivables in the consolidated balance sheets.

The interest in excess cash flows equals the cash flows arising from retail loans sold to the securitization trust less contracted payment obligations due to securitization trust investors. Key assumptions in determining the present value of projected excess cash flows are prepayments, credit losses and discount rate. HDFS retains servicing rights under retail loans that it has sold to the securitization trust and receives a servicing fee. The servicing fee paid to HDFS is considered adequate compensation for the services provided and is included in financial services income as earned.

Reserve account deposits held by the securitization trust represent interest-earning cash deposits collateralizing trust securities. The funds are not available for use by HDFS until the reserve account balances exceed thresholds specified in the securitization agreements. Accordingly, they are carried at the present value of the amounts expected to be received in the future.

Gains on current year securitizations on the sale of the retail loans are recognized in the period in which the sale occurs. The amount of the gain depends on the proceeds received and the original carrying amount of the transferred retail loans, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer.

Investments in retained securitization interests are recorded at fair value and are periodically reviewed for impairment. Market quotes of fair value are generally not available for retained interests; therefore, HDFS estimates fair value based on the present value of future expected cash flows using HDFS' best estimates of key assumptions for credit losses, prepayments

and discount rate commensurate with the risks involved. Unrealized gains and losses on investments in retained securitization interests are recorded in other comprehensive income, and as of December 31, 2005 and 2004 were \$64.3 million and \$58.1 million before income taxes, or \$41.6 million and \$37.6 million net of taxes, respectively.

HDFS does not guarantee payments on the securities issued by the securitization trusts or the projected cash flows from the retail loans purchased from HDFS. The Company's retained securitization interests, excluding servicing rights, are subordinate to the interests of securitization trust investors. Such investors have priority interests in the cash collections on the retail loans sold to the securitization trust (after payment of servicing fees) and in the cash reserve account deposits. These priority interests ultimately could impact the value of the Company's investment in retained securitization interests. Investors also do not have recourse to the assets of HDFS for failure of the obligors on the retail loans to pay when due.

HDFS utilizes a two-step process to transfer retail loans to a securitization trust. Loans are initially transferred to a special purpose, bankruptcy remote, wholly-owned subsidiary which in turn sells the retail loans to the securitization trust. HDFS has surrendered control of retail loans sold to the securitization trust. Securitization transactions have been structured such that: (1) transferred assets have been isolated from HDFS by being put presumptively beyond the reach of HDFS and its creditors, even in bankruptcy or other receivership; (2) each holder of a beneficial interest in the securitization trust has the right to pledge or exchange their interest; and (3) HDFS does not maintain effective control over the transferred assets through either (a) an agreement that both entitles and obligates HDFS to repurchase or redeem the transferred assets before their maturity other than for breaches of certain representations, warranties and covenants relating to the transferred assets, or (b) the ability to unilaterally cause the holder to return specific assets, other than through a customary cleanup call.

Activities of the securitization trust are limited to acquiring retail loans, issuing asset-backed securities and making payments on securities to investors. Securitization trusts have a limited life and generally terminate upon final distribution of amounts owed to the investors in the asset-backed securities. Historically, the life of securitization trusts purchasing retail loans from HDFS has approximated four years.

Due to the overall structure of the securitization transaction, the nature of the assets held by the securitization trust and the limited nature of its activities, the securitization trusts are considered QSPEs. Accordingly, gain on sale is recognized upon transfer of retail loans to a QSPE and assets and liabilities of the QSPEs are not consolidated in the financial statements of HDFS. See Note 4 for further discussion of HDFS' securitization program.

Inventories

Inventories are valued at the lower of cost or market. Substantially all inventories located in the United States are valued using the last-in, first-out (LIFO) method. Other inventories totaling \$77.4 million at December 31, 2005, and \$79.2 million at

December 31, 2004, are valued at the lower of cost or market using the first-in, first-out (FIFO) method.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is determined on the straight-line basis over the estimated useful lives of the assets. The following useful lives are used to depreciate the various classes of property, plant and equipment: buildings—30 years; building equipment and land improvements—7 years; and machinery and equipment—3 to 10 years. Accelerated methods of depreciation are used for income tax purposes.

Internal-use Software

The Company's policy is to capitalize costs incurred in connection with developing or obtaining software for internal use. The Company's policy explicitly excludes certain types of costs from capitalization, such as costs incurred for enhancements, maintenance, project definition, data conversion, research and development, and training. Costs capitalized by the Company include amounts paid to outside consulting firms for materials or services used in developing or obtaining computer software for internal use, wages and benefits paid to employees who are directly associated with and who devote time to developing or obtaining computer software for internal use, and interest costs incurred during the period of development of software for internal use. During 2005, 2004 and 2003 the Company capitalized \$17.0 million, \$15.0 million and \$16.5 million, respectively, of costs incurred in connection with developing or obtaining software for internal use. The Company depreciates costs capitalized in connection with developing or obtaining software for internal use on a straight-line basis over three years.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the net assets purchased. Goodwill is tested for impairment at least annually based on financial data related to the reporting unit to which it has been assigned. The Company has assigned goodwill to reporting units based on specific review of each purchase transaction. During 2005 and 2004, the Company tested its goodwill balances for impairment and no adjustments were recorded to goodwill as a result of those reviews.

Long-lived Assets

The Company periodically evaluates the carrying value of long-lived assets to be held and used and long-lived assets held for sale, when events and circumstances warrant such review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset for assets to be held and used, or the amount by which the carrying value exceeds the fair market value less cost to sell for assets held for sale. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Product Warranty

The Company provides a standard two-year limited warranty on all new motorcycles sold. The warranty coverage includes parts and labor and begins when the motorcycle is sold to a retail

customer. The Company maintains reserves for future warranty claims using an estimated cost per unit sold, which is based on historical Company claim information. Changes in the Company's warranty liability were as follows:

(in thousands)	2005	2004	2003
Balance, beginning of period	\$39,998	\$30,475	\$28,890
Warranties issued during the period	37,043	41,434	35,324
Settlements made during the period	(36,372)	(33,842)	(32,701)
Changes to the liability for pre-existing warranties during the period	(6,350)	1,931	(1,038)
Balance, end of period	\$34,319	\$39,998	\$30,475

Derivative Financial Instruments

The Company uses derivative financial instruments to manage foreign currency exchange rate and interest rate risk. The Company's policy specifically prohibits the use of derivatives for speculative purposes. The fair values of the Company's derivative financial instruments are discussed in Note 11.

All derivative instruments are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that are designated as fair value hedges, along with the gain or loss on the hedged item, are recorded in current period earnings. For derivative instruments that are designated as cash flow hedges, the effective portion of gains and losses that result from changes in the fair value of derivative instruments is initially recorded in other comprehensive income and subsequently reclassified into earnings when the hedged transaction affects income. Any ineffective portion is immediately recognized in earnings. No component of a hedging derivative instrument's gain or loss is excluded from the assessment of hedge effectiveness.

The Company sells its products internationally and in most markets those sales are made in the foreign country's local currency. As a result, the Company's earnings can be affected by fluctuations in the value of the U.S. dollar relative to foreign currency. The Company utilizes foreign currency contracts to mitigate the effect of these fluctuations on earnings. The foreign currency contracts are entered into with banks and allow the Company to exchange a specified amount of foreign currency for U.S. dollars at a future date, based on a fixed exchange rate. The Company's foreign currency contracts, which generally have maturities of less than one year, are designated as cash flow hedges. The effectiveness of these hedges is measured based on changes in the fair value of the contract attributable to changes in the forward exchange rate and are highly effective. The fair value of foreign currency contracts is reflected in current assets or liabilities, realized gains and losses are recorded in cost of goods sold and the related cash flows are included in cash flows from operations.

HDFS enters into interest rate swap agreements to reduce the impact of fluctuations in interest rates on its securitization transactions. HDFS originates fixed-rate retail loans on an ongoing basis. Eligible loans are pooled and sold through securitization transactions on a periodic basis. HDFS utilizes interest rate swap agreements to hedge anticipated cash flows from the securitization of retail motorcycle loans.

In addition, HDFS enters into interest rate swap agreements to reduce the impact of fluctuations in interest rates on its fixed and floating rate debt.

At inception, HDFS designates each interest rate swap as a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Revenue Recognition

Sales are recorded when products are shipped to customers (independent dealers and distributors) and ownership is transferred. The Company offers sales incentive programs to its dealers and distributors. The total costs of these programs are recognized as revenue reductions and are accrued at the later of the date the related sales are recorded or the date the incentive program is both approved and communicated.

Financial Services Income Recognition

Interest income on finance receivables is recorded as earned and is based on the average outstanding daily balance for wholesale and retail receivables. Accrued interest is classified with finance receivables. Loan origination payments made to dealers for certain retail loans are deferred and amortized over the estimated life of the contract.

Research and Development Expenses

Research and development expenses were \$178.5 million, \$170.7 million and \$150.3 million for 2005, 2004 and 2003, respectively.

Advertising Costs

The Company expenses the production cost of advertising the first time the advertising takes place. Advertising costs relate to the Company's efforts to promote its products and brands through the use of media. During 2005, 2004 and 2003 the Company incurred \$66.5 million, \$48.8 million and \$50.8 million in advertising costs, respectively.

Shipping and Handling Costs

The Company classifies shipping and handling costs as a component of cost of goods sold.

Foreign Currency Transactions

Net transaction losses due to fluctuations in foreign exchange rates including gains and losses on foreign currency contracts were \$22.1 million and \$13.7 million, during 2005 and 2004, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock Compensation Costs

On January 1, 2005 the Company early adopted SFAS No. 123 (revised 2004), "Share-Based Payment," which requires the Company to recognize the cost of its employee stock option awards in its income statement. According to SFAS No. 123 (revised 2004), the total cost of the Company's share-based awards is equal to their grant date fair value and is recognized as expense on a straight-line basis over the service periods of the awards. The Company adopted the fair value recognition

provisions of SFAS No. 123 (revised 2004) using the modified-prospective-transition method. Under that transition method, compensation cost recognized in 2005 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," and (b) compensation cost for all share-based payments granted subsequent to January 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123 (revised 2004). Results for prior periods have not been restated. Total stock compensation expense recognized by the Company during 2005, including stock option and nonvested stock awards, was \$23.0 million, or \$14.5 million net of taxes.

As a result of adopting SFAS No. 123 (revised 2004) on January 1, 2005, the Company's income before income taxes and net income for 2005 were \$21.1 million and \$13.0 million lower, respectively, than if it had continued to account for stock option awards under APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Basic and diluted earnings per share for 2005 would have been \$3.47 and \$3.46, respectively, if the Company had not adopted SFAS No. 123 (revised 2004), compared to reported basic and diluted earnings per share of \$3.42 and \$3.41, respectively. Prior to the adoption of SFAS No. 123 (revised 2004), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. Beginning on January 1, 2005 the Company changed its cash flow presentation in accordance with SFAS No. 123 (revised 2004) which requires the cash flows of the realized tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. The \$6.1 million excess tax benefit classified as a financing cash inflow in 2005 would have been classified as an operating cash inflow if the Company had not adopted SFAS No. 123 (revised 2004).

Prior to January 1, 2005, the Company accounted for its stock option plans under the recognition and measurement provisions of APB Opinion No. 25 and related Interpretations, as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." No stock option-based employee compensation cost was recognized in the income statement prior to 2005, as all stock options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company estimated the fair value of its option awards granted prior to January 1, 2005 using the Black-Scholes option-pricing formula. The Black-Scholes option pricing model was used with the following weighted-average assumptions for grants made in the following years:

	2004	2003
Fair value of options granted during the period	\$17	\$14
Expected term (in years)	4.9	4.7
Expected volatility	34%	36%
Expected dividend yield	0.6%	0.3%
Risk free rate	3.2%	2.7%

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock options during the years ended December 31, 2004 and 2003. For purposes of this pro forma disclosure, the value of the options is amortized to expense on a straight-line basis over a four-year vesting period and forfeitures are recognized as they occur. The Company's pro forma information follows:

(in thousands, except per-share amounts)	2004	2003
Net income, as reported	\$889,766	\$760,928
Total stock-based employee compensation expense determined under fair value based method for all option awards, net of related tax effects	(13,932)	(13,415)
Pro forma net income	\$875,834	\$747,513
Basic earnings per share as reported	\$3.02	\$2.52
Basic earnings per share pro forma	\$2.97	\$2.47
Diluted earnings per share as reported	\$3.00	\$2.50
Diluted earnings per share pro forma	\$2.96	\$2.46

2. Additional Balance Sheet and Cash Flow Information

The following information represents additional detail for selected line items included in the consolidated balance sheets at December 31 and the statements of cash flows for the years ended December 31.

BALANCE SHEET INFORMATION

Accounts receivable, net:

(in thousands)	2005	2004
Domestic	\$ 21,154	\$ 16,485
Foreign	100,933	104,848
	\$122,087	\$121,333

The Company's sales of motorcycles and related products in the United States, Canada and a portion of its sales in Europe are financed by the purchasing dealers or distributors through HDFs, and the related receivables are included in finance receivables in the consolidated balance sheets. The Company's remaining foreign sales are sold on open account, letter of credit, draft, and payment in advance or financed by the purchasing dealers. The allowance for doubtful accounts deducted from total accounts receivable was \$8.5 million and \$10.3 million as of December 31, 2005 and 2004, respectively.

(in thousands)	2005	2004
Inventories, net:		
Components at the lower of FIFO cost or market:		
Raw materials and work in process	\$ 90,955	\$ 78,750
Motorcycle finished goods	73,736	75,839
Parts and accessories and general merchandise	80,017	93,933
Inventory at lower of FIFO cost or market	244,708	248,522
Excess of FIFO over LIFO cost	23,290	21,629
	\$221,418	\$226,893

Inventory obsolescence reserves deducted from FIFO cost were \$16.7 million and \$14.5 million as of December 31, 2005 and 2004, respectively.

Property, plant and equipment, at cost:

(in thousands)	2005	2004
Land and related improvements	\$ 44,669	\$ 40,867
Buildings and related improvements	378,614	355,479
Machinery and equipment	1,797,322	1,628,667
Construction in progress	113,493	168,389
	2,334,098	2,193,402
Less accumulated depreciation	1,322,486	1,168,737
	\$1,011,612	\$1,024,665

Accrued expenses and other liabilities:

(in thousands)	2005	2004
Payroll, performance incentives and related expenses	\$125,886	\$151,833
Warranty and recalls	43,137	45,285
Sales incentive programs	65,612	70,776
Income taxes	58,075	53,547
Fair value of derivative financial instruments	15,119	39,701
Other	89,696	71,911
	\$397,525	\$433,053

Components of accumulated other comprehensive income (loss), net of tax:

(in thousands)	2005	2004
Cumulative foreign currency translation adjustment	\$15,532	\$ 33,537
Unrealized gain on investment in retained securitization interest	41,634	37,633
Unrealized net gain (loss) on derivative financial instruments	8,761	(16,231)
Unrealized net (loss) on marketable securities	(5,319)	(4,925)
Minimum pension liability adjustment	(1,955)	(62,110)
	\$58,653	\$ (12,096)

CASH FLOW INFORMATION

Net changes in current assets and current liabilities:

(in thousands)	2005	2004	2003
Accounts receivable	\$(754)	\$(8,927)	\$(3,712)
Inventories	5,475	(19,167)	10,430
Finance receivables — accrued interest and other	(16,252)	(27,443)	(54,796)
Accounts payable and accrued liabilities	15,464	39,569	15,545
Other	(9,018)	(8,898)	13,889
	\$(5,085)	\$(24,866)	\$(18,644)

Cash paid during the period for interest and income taxes:

(in thousands)	2005	2004	2003
Interest	\$ 34,417	\$ 21,346	\$ 17,024
Income taxes	\$471,613	\$469,658	\$370,597

Interest paid represents interest payments of HDFS which are included in financial services expense. The Company capitalized approximately \$3.9 million of interest expense in 2003 in connection with expansion projects.

Non-cash investing activity during the period:

(in thousands)	2005	2004	2003
Investment in retained securitization interests received in connection with securitizations during the year	\$ 176,640	\$154,569	\$164,286

3. Acquisition

On January 1, 2004, the Company acquired the remaining interest in its joint venture with Porsche AG, of which the Company previously owned a 51% share. The purchase price for the remaining interest in the joint venture was approximately \$9.5 million. The acquisition was funded with cash on hand. Goodwill of \$4.1 million was recorded under the Motorcycles segment as a result of this transaction.

4. Financial Services

HDFS is engaged in the business of financing and servicing wholesale inventory receivables and retail loans, primarily for the purchase of motorcycles. HDFS is responsible for all credit and collection activities for the Motorcycles segment's domestic dealer receivables and many of its European dealer receivables. HDFS conducts business in the United States, Canada and Europe.

The condensed statements of operations relating to the Financial Services segment, for the years ended December 31, were as follows:

(in thousands)	2005	2004	2003
Interest income	\$129,869	\$102,177	\$ 87,048
Income from securitizations	123,136	115,104	114,402
Other income	78,613	87,981	78,009
Financial services income	331,618	305,262	279,459
Interest expense	36,154	22,723	17,635
Operating expenses	103,844	93,939	93,951
Financial services expense	139,998	116,662	111,586
Operating income from financial services	\$191,620	\$188,600	\$167,873

Interest income includes approximately \$16.0 million, \$11.8 million and \$9.2 million of interest on wholesale finance receivables paid by HDMC to HDFS in 2005, 2004 and 2003, respectively. This interest is paid on behalf of HDMC's independent dealers as a way to manage seasonal increases in inventory. These interest transactions between the Motorcycles and Financial Services segments are not eliminated.

Income from securitizations includes gains on current year securitization transactions of \$46.6 million, \$58.3 million and \$82.2 million during 2005, 2004 and 2003, respectively, and income on investment in retained securitization interests of \$76.6 million, \$56.8 million and \$32.2 million during 2005, 2004 and 2003, respectively.

FINANCE RECEIVABLES: Finance receivables held for investment at December 31 for the past five years were as follows:

(in thousands)	2005	2004	2003	2002	2001
Wholesale					
United States	\$1,040,220	\$ 870,640	\$ 690,662	\$ 574,489	\$527,513
Europe	59,960	73,231	91,987	91,137	—
Canada	50,097	51,945	59,171	42,236	40,793
Total Wholesale	1,150,277	995,816	841,820	707,862	568,306
Retail					
United States	319,856	287,841	233,079	202,193	177,147
Canada	149,597	120,217	92,740	60,921	52,241
Total Retail	469,453	408,058	325,819	263,114	299,388
	1,619,730	1,403,874	1,167,639	970,976	797,694
Allowance for credit losses	26,165	30,277	31,311	31,045	28,684
	1,593,565	1,373,597	1,136,328	939,931	769,010
Investment in retained securitization interests	349,659	282,187	254,409	198,748	152,097
	\$1,943,224	\$1,655,784	\$1,390,737	\$1,138,679	\$921,107

Finance receivables held for sale at December 31 for the past five years were as follows:

(in thousands)	2005	2004	2003	2002	2001
Retail					
United States	\$299,373	\$456,516	\$347,112	\$306,901	\$114,649

HDFS provides wholesale financing to the Company's independent dealers. Wholesale loans to dealers are generally secured by financed inventory or property and are originated in the U.S., Canada and Europe.

HDFS provides retail financial services to customers of the Company's independent dealers in the United States and Canada. The origination of retail loans is a separate and distinct transaction between HDFS and the retail customer, unrelated to the Company's sale of product to its dealers. Retail loans consist of secured promissory notes and installment loans. HDFS either holds titles or liens on titles to vehicles financed by promissory notes and installment loans. As of December 31, 2005 and 2004, approximately 10% of gross outstanding finance receivables were originated in Canada and 10% were originated in California, respectively.

At December 31, 2005 and 2004, unused lines of credit extended to HDFS' wholesale finance customers totaled \$714 million and \$700 million, respectively. Approved but unfunded retail finance loans totaled \$457 million and \$343 million at December 31, 2005 and 2004, respectively.

Wholesale finance receivables are related primarily to motorcycles and related parts and accessories sales to independent dealers and are generally contractually due within one year. Retail finance receivables are primarily related to sales of motorcycles to the dealers' customers, the end consumers. On December 31, 2005, contractual maturities of finance receivables

held for investment (excluding retained securitization interests) were as follows:

(in thousands)	UNITED STATES	EUROPE	CANADA	TOTAL
2006	\$1,076,580	\$59,960	\$ 68,221	\$1,204,761
2007	15,356	—	19,502	34,858
2008	16,826	—	21,743	38,569
2009	18,445	—	24,242	42,687
2010	20,229	—	27,027	47,256
Thereafter	212,640	—	38,959	251,599
Total	\$1,360,076	\$59,960	\$199,694	\$1,619,730

As of December 31, 2005, all finance receivables due after one year were at fixed interest rates.

The allowance for credit losses is comprised of individual components relating to wholesale and retail finance receivables. Changes in the allowance for credit losses for the years ended December 31 were as follows:

(in thousands)	2005	2004	2003
Balance at beginning of year	\$30,277	\$31,311	\$31,045
Provision for finance credit losses	3,263	3,070	4,076
Charge-offs, net of recoveries	(7,375)	(4,104)	(3,810)
Balance at end of year	\$26,165	\$30,277	\$31,311

Included in charge-offs, net of recoveries are \$1.8 million, \$3.7 million and \$1.3 million of recoveries in 2005, 2004 and 2003, respectively, received by HDFS from HDMC. These recoveries relate to certain guarantees provided by HDMC on wholesale loans to European Harley-Davidson dealers. At December 31, 2005, 2004 and 2003, HDMC has \$0.3 million, \$3.3 million and \$3.5 million, respectively, included in its allowance for doubtful accounts related to outstanding guarantees.

The carrying value of retail and wholesale finance receivables contractually past due 90 days or more at December 31 for the past five years were as follows:

(in thousands)	2005	2004	2003	2002	2001
United States	\$2,574	\$1,906	\$2,012	\$1,724	\$2,262
Canada	1,442	994	639	523	365
Europe	283	3,688	4,126	5,307	—
Total	\$4,299	\$6,588	\$6,777	\$7,554	\$2,627

SECURITIZATION TRANSACTIONS: During 2005, 2004 and 2003, the Company sold \$2.48 billion, \$1.88 billion and \$1.75 billion, respectively, of retail motorcycle loans through securitization transactions utilizing QSPEs (see Note 1). These sales resulted in cash proceeds of \$2.45 billion, \$1.85 billion and \$1.72 billion during 2005, 2004 and 2003, respectively. The Company retains an interest in excess cash flows, servicing rights and cash reserve account deposits, collectively referred to as investment in retained securitization interests. The total securitization interests retained during the year for the last three years are disclosed under non-cash investing activities in Note 2. In conjunction with current and prior year sales, HDFS had

investments in retained securitization interests of \$349.7 million and \$282.2 million at December 31, 2005 and 2004, respectively. The Company receives annual servicing fees approximating 1% of the outstanding securitized retail loans. HDFS serviced \$3.9 billion and \$3.1 billion of securitized retail loans as of December 31, 2005 and 2004, respectively.

The Company's retained securitization interests, excluding servicing rights, are subordinate to the interests of securitization trust investors. Such investors have priority interests in the cash collections on the retail loans sold to the securitization trust (after payment of servicing fees) and in the cash reserve account deposits. These priority interests ultimately could impact the value of the Company's investment in retained securitization interests. Investors also do not have recourse to the assets of HDFS for failure of the obligors on the retail loans to pay when due. Key assumptions in the valuation of the investment in retained securitization interests and in calculating the gain on current year securitizations are credit losses, prepayments and discount rate.

At the date of the transaction, the following key assumptions were used to calculate the gain on securitizations completed in 2005, 2004 and 2003:

	2005	2004	2003
Prepayment speed			
(Single Monthly Mortality)	2.50%	2.50%	2.50%
Weighted-average life (in years)	1.93	1.94	1.93
Expected cumulative net credit losses	2.60%	2.60%	2.60%
Residual cash flows discount rate	12.00%	12.00%	12.00%

As of December 31, 2005 and 2004, respectively, the following key assumptions were used to value the investment in retained securitization interests:

	2005	2004
Prepayment speed (Single Monthly Mortality)	2.50%	2.50%
Weighted-average life (in years)	2.02	2.00
Expected cumulative net credit losses	2.57%	2.55%
Residual cash flows discount rate	12.00%	12.00%

Expected cumulative net credit losses are a key assumption in the valuation of retained securitization interests. As of December 31, 2005, 2004 and 2003, respectively, weighted average expected net credit losses for all active securitizations were 2.57%, 2.55% and 2.48%. The table below summarizes, as of December 31, 2005, 2004 and 2003, respectively, expected cumulative net credit losses by year of securitization, expressed as a percentage of the original balance of loans securitized for all securitizations completed during the years noted.

EXPECTED CUMULATIVE NET CREDIT LOSSES (%) AS OF:	2005	LOANS SECURITIZED IN			
		2004	2003	2002	2001
December 31, 2005	2.60%	2.60%	2.52%	2.44%	2.16%
December 31, 2004	—	2.60%	2.60%	2.39%	2.30%
December 31, 2003	—	—	2.60%	2.39%	2.25%

Detailed below at December 31, 2005 and 2004, is the sensitivity of the fair value to immediate 10% and 20% adverse changes in the weighted-average key assumptions for all retained securitization interests:

(in thousands)	2005	2004
Carrying amount/fair value of retained interests	\$ 349,659	\$282,187
Weighted-average life (in years)	2.02	2.00
Prepayment speed assumption (monthly rate)	2.50%	2.50 %
Impact on fair value of 10% adverse change	\$ (9,400)	\$ (7,800)
Impact on fair value of 20% adverse change	\$ (18,300)	\$ (15,100)
Expected cumulative net credit losses	2.57%	2.55 %
Impact on fair value of 10% adverse change	\$ (18,800)	\$ (14,800)
Impact on fair value of 20% adverse change	\$ (37,600)	\$ (29,600)
Residual cash flows discount rate (annual)	12.00%	12.00 %
Impact on fair value of 10% adverse change	\$ (6,400)	\$ (5,100)
Impact on fair value of 20% adverse change	\$ (12,600)	\$ (10,100)

These sensitivities are hypothetical and should not be considered to be predictive of future performance. Changes in fair value generally cannot be extrapolated because the relationship of change in assumption to change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently from any change in another assumption. In reality, changes in one factor may contribute to changes in another, which may magnify or counteract the sensitivities. Furthermore, the estimated fair values as disclosed should not be considered indicative of future earnings on these assets.

The table below provides information regarding certain cash flows received from and paid to all motorcycle loan securitization trusts during the years ended December 31, 2005 and 2004:

(in thousands)	2005	2004
Proceeds from new securitizations	\$2,450,920	\$1,847,895
Servicing fees received	36,662	30,504
Other cash flows received on retained interests	182,278	178,181
10% Cleanup call repurchase option	(61,859)	(36,620)

Managed retail motorcycle loans consist of all retail motorcycle installment loans serviced by HDFS including those held by securitization trusts and those held by HDFS. As of December 31, 2005 and 2004, managed retail motorcycle loans totaled \$4.4 billion and \$3.7 billion, respectively, of which \$3.9 billion and \$3.1 billion, respectively, were securitized. The principal amount of motorcycle managed loans 60 days or more past due was \$61.2 million and \$40.0 million at December 31, 2005 and 2004, respectively. Managed loans 60 days or more past due exclude loans reclassified as repossessed inventory. Credit losses, net of recoveries, of the motorcycle managed loans were \$53.0 million, \$33.0 million and \$27.0 million during 2005, 2004 and 2003, respectively.

FINANCE DEBT: HDFS' debt as of December 31 consisted of the following:

(in thousands)	2005	2004
Commercial paper	\$ 416,797	\$ 702,147
Credit facilities	172,965	168,309
	589,762	870,456
Medium-term notes	585,211	394,985
Senior subordinated notes	30,000	30,000
	\$1,204,973	\$1,295,441

Credit Facilities

HDFS has a \$1.10 billion revolving credit facility (Global Credit Facility) due September 2009. The primary use of the Global Credit Facility is to provide liquidity to the unsecured commercial paper program and to fund domestic and foreign operations. Subject to certain limitations, HDFS has the option to borrow in various currencies. Interest is based on London interbank offered rates (LIBOR), European interbank offered rates or other short-term indices, depending on the type of advance. The Global Credit Facility is a committed facility, and HDFS pays a fee for its availability.

Commercial Paper

Subject to limitations, HDFS may issue commercial paper of up to \$1.10 billion. Maturities may range up to 365 days from the issuance date. Outstanding commercial paper may not exceed the unused portion of the Global Credit Facility. As a result, the combined total of commercial paper and borrowings under the Global Credit Facility was limited to \$1.10 billion as of December 31, 2005 and 2004. The weighted-average interest rate of outstanding commercial paper balances was 4.18% and 2.29% at December 31, 2005 and 2004, respectively. The December 31, 2005 and 2004 weighted-average interest rates include the impact of interest rate swap agreements.

Medium-Term Notes

HDFS has \$400.0 million of 3.63% medium-term notes outstanding which are due in December 2008 and during December 2005, HDFS issued \$200.0 million of 5% medium-term notes due in December 2010 (collectively referred to as "Notes"). The Notes provide for semi-annual interest payments and principal due at maturity. HDFS entered into swap agreements, the effect of which is to convert the interest rates on \$550.0 million of the Notes from fixed rates to floating rates, which are based on 3-month LIBOR. The weighted-average interest rates on the Notes for the years ended December 31, 2005 and 2004 were 3.5% and 1.6%, respectively, which include the impact of interest rate swap agreements. At December 31, 2005 and 2004, the Notes reflect \$14.7 million and \$5.0 million decreases, respectively, due to fair value adjustments related to the impact of the interest rate swap agreements.

Senior Subordinated Debt

At December 31, 2005 and 2004, HDFS had \$30.0 million of 6.79% senior subordinated notes outstanding due in 2007. The senior subordinated notes provide for semi-annual interest payments and principal at maturity.

Intercompany Borrowings

HDFS has a revolving credit line with the Company whereby HDFS may borrow up to \$210.0 million at market rates of interest. As of December 31, 2005 and 2004, HDFS had no borrowings owed to the Company under the revolving credit agreement.

The Company has classified the \$585.0 million of medium-term notes and the \$30.0 million senior subordinated notes as long-term finance debt at December 31, 2005. Additionally, the Company has classified \$385.0 million related to its Commercial Paper and its Global Credit Facilities as long-term finance debt as of December 31, 2005. This amount has been excluded from current liabilities because it is supported by the Global Credit Facility and will remain outstanding for an uninterrupted period extending beyond one year from the balance sheet date.

The Company and HDFS have entered into a support agreement wherein, if required, the Company agrees to provide HDFS certain financial support to maintain certain financial covenants. Support may be provided either as capital contributions or loans at the Company's option. No amount has ever been provided to HDFS under the support agreement.

HDFS is subject to various operating and financial covenants related to the Global Credit Facility and the Notes and remains in compliance at December 31, 2005.

5. Income Taxes

Provision for income taxes for the years ended December 31 consists of the following:

(in thousands)	2005	2004	2003
Current:			
Federal	\$421,760	\$466,476	\$324,960
State	47,605	61,982	33,461
Foreign	10,501	2,775	4,581
	479,866	531,233	363,002
Deferred:			
Federal	47,718	(38,332)	39,902
State	4,577	(5,261)	5,040
Foreign	(4,006)	2,080	(2,837)
	48,289	(41,513)	42,105
Total	\$528,155	\$489,720	\$405,107

The provision for income taxes differs from the amount that would be provided by applying the statutory U.S. corporate income tax rate due to the following items for the years ended December 31:

	2005	2004	2003
Provision at statutory rate	35.0%	35.0%	35.0%
Foreign income taxes	0.1	0.1	0.1
Foreign tax credits	(0.1)	(0.1)	(0.1)
State taxes, net of federal benefit	2.3	2.5	2.1
Extraterritorial income exclusion	(0.6)	(0.7)	(0.5)
Manufacturing deduction	(0.4)	—	—
Research and development credit	(0.6)	(0.5)	(0.5)
Other	(0.2)	(0.8)	(1.4)
Provision for income taxes	35.5%	35.5%	34.7%

Deferred income taxes result from temporary differences between the recognition of revenues and expenses for financial statements and income tax returns. The principal components of the Company's deferred tax assets and liabilities as of December 31 include the following:

(in thousands)	2005	2004
Deferred tax assets:		
Accruals not yet tax deductible	\$ 58,436	\$ 76,192
Postretirement healthcare benefit obligation	25,862	58,455
Supplemental employee retirement plan agreements obligation	11,834	19,387
Minimum pension liability	1,205	38,230
Other, net	49,659	19,535
	146,996	211,799
Deferred tax liabilities:		
Depreciation, tax in excess of book	(66,273)	(76,385)
Prepaid pension costs	(138,706)	(96,163)
Unrealized gain on investment in retained securitization interests	(22,631)	(20,452)
Other, net	(13,337)	(9,714)
	(240,947)	(202,714)
Net deferred tax (liability) asset	\$ (93,951)	\$ 9,085

6. Commitments and Contingencies

The Company is subject to lawsuits and other claims related to environmental, product and other matters. In determining required reserves related to these items, the Company carefully analyzes cases and considers the likelihood of adverse judgments or outcomes, as well as the potential range of possible loss. The required reserves are monitored on an ongoing basis and are updated based on new developments or new information in each matter.

Shareholder Lawsuits

A number of shareholder class action lawsuits were filed between May 18, 2005 and July 1, 2005 in the United States District Court for the Eastern District of Wisconsin against the Company and some or all of the following Company officers: Jeffrey L. Bleustein, James M. Brostowitz, Jon R. Flickinger, John A. Hevey, Ronald M. Hutchinson, Gail A. Lione, James A.

McCaslin, W. Kenneth Sutton, Jr., Donna F. Zarcone and James L. Ziemer. The complaints allege securities law violations and seek unspecified damages relating generally to the Company's April 13, 2005 announcement that it was reducing short-term production growth and planned increases of motorcycle shipments from 317,000 units in 2004 to a new 2005 target of 329,000 units (compared to its original target of 339,000 units).

Three shareholder derivative lawsuits were filed in the United States District Court for the Eastern District of Wisconsin on June 3, 2005, October 25, 2005 (this lawsuit was later voluntarily dismissed) and December 2, 2005 and two shareholder derivative lawsuits were filed in Milwaukee County Circuit Court on July 22, 2005 and November 16, 2005 against some or all of the following directors and officers of the Company: Jeffrey L. Bleustein, James L. Ziemer, James M. Brostowitz, Barry K. Allen, Richard I. Beattie, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., James A. Norling, James A. McCaslin, Donna F. Zarcone, Jon R. Flickinger, Gail A. Lione, Ronald M. Hutchinson, W. Kenneth Sutton, Jr., and John A. Hevey. The lawsuits also name the Company as a nominal defendant. In general, the shareholder derivative complaints include factual allegations similar to those in the class action complaints and allegations that officers and directors breached their fiduciary duties to the Company.

On July 11, 2005, the staff of the Enforcement Division of the United States Securities and Exchange Commission ("SEC") advised the Company that it is inquiring into matters relating generally to the Company's April 13, 2005 announcement and certain allegations contained in the shareholder complaints. The Company is cooperating with the SEC.

On August 25, 2005, a class action lawsuit alleging violations of the Employee Retirement Income Security Act ("ERISA") was filed in the United States District Court for the Eastern District of Wisconsin against the Company, the Administrative Committee of Harley-Davidson, Inc., and the following Company employees, officers, and directors: Harold A. Scott, James M. Brostowitz, James L. Ziemer, Gail A. Lione, Barry K. Allen, Richard I. Beattie, Jeffrey L. Bleustein, George H. Conrades, Judson C. Green, Donald A. James, Sara L. Levinson, George L. Miles, Jr., and James A. Norling. In general, the ERISA complaint includes factual allegations similar to those in the shareholder class action lawsuits and alleges on behalf of participants in certain Harley-Davidson retirement savings plans that the plan fiduciaries breached their ERISA fiduciary duties.

The Company believes the allegations against all of the defendants in the lawsuits against the Company are without merit and it intends to vigorously defend against them. Since all of these matters are in the preliminary stages, the Company is unable to predict the scope or outcome or quantify their eventual impact, if any, on the Company. At this time the Company is also unable to estimate associated expenses or possible losses. The Company maintains insurance that may limit its financial exposure for defense costs and liability for an unfavorable outcome, should it not prevail, for claims covered by the insurance coverage.

Cam Bearing Lawsuit

In January 2001, the Company, on its own initiative, notified each owner of 1999 and early-2000 model year Harley-Davidson motorcycles equipped with Twin Cam 88® and Twin Cam 88B™ engines that the Company was extending the warranty for a rear cam bearing to 5 years or 50,000 miles. Subsequently, on June 28, 2001, a putative nationwide class action was filed against the Company in state court in Milwaukee County, Wisconsin, which was amended by a complaint filed September 28, 2001. The complaint alleged that this cam bearing is defective and asserted various legal theories. The complaint sought unspecified compensatory and punitive damages for affected owners, an order compelling the Company to repair the engines, and other relief. On February 27, 2002, the Company's motion to dismiss the amended complaint was granted by the Court and the amended complaint was dismissed in its entirety. An appeal was filed with the Wisconsin Court of Appeals. On April 12, 2002, the same attorneys filed a second putative nationwide class action against the Company in state court in Milwaukee County, Wisconsin relating to this cam bearing issue and asserting different legal theories than in the first action. The complaint sought unspecified compensatory damages, an order compelling the Company to repair the engines and other relief. On September 23, 2002, the Company's motion to dismiss was granted by the Court, the complaint was dismissed in its entirety, and no appeal was taken. On January 14, 2003, the Wisconsin Court of Appeals reversed the trial court's February 27, 2002 dismissal of the complaint in the first action, and the Company petitioned the Wisconsin Supreme Court for review. On March 26, 2004, the Wisconsin Supreme Court reversed the Court of Appeals and dismissed the remaining claims in the action. On April 12, 2004, the same attorneys filed a third action in the state court in Milwaukee County, on behalf of the same plaintiffs from the action dismissed by the Wisconsin Supreme Court. This third action was dismissed by the court on July 26, 2004. In addition, the plaintiffs in the original case moved to reopen that matter and amend the complaint to add new causes of action. On September 9, 2004, Milwaukee County Circuit Court refused to allow the reopening or amendment. Plaintiffs again appealed to the Wisconsin Court of Appeals, and on December 13, 2005, the Court of Appeals again reversed the trial court. The Company has filed a petition for review with the Wisconsin Supreme Court, asking it to reinstate the trial court's decision. The Company believes that the 5-year/50,000 mile warranty extension it announced in January 2001 adequately addressed the condition for affected owners, and the Company intends to continue to vigorously defend this matter.

Environmental Matters

The Company is involved with government agencies and groups of potentially responsible parties in various environmental matters, including a matter involving the cleanup of soil and groundwater contamination at its York, Pennsylvania, facility. The York facility was formerly used by the U.S. Navy and AMF prior to the purchase of the York facility by the Company from AMF in 1981. Although the Company is not certain as to the full

extent of the environmental contamination at the York facility, it has been working with the Pennsylvania Department of Environmental Protection (PADEP) since 1986 in undertaking environmental investigation and remediation activities, including an ongoing site-wide remedial investigation/feasibility study (RI/FS).

In January 1995, the Company entered into a settlement agreement (the Agreement) with the Navy. The Agreement calls for the Navy and the Company to contribute amounts into a trust equal to 53% and 47%, respectively, of future costs associated with environmental investigation and remediation activities at the York facility (Response Costs). The trust administers the payment of the Response Costs incurred at the York facility as covered by the Agreement.

In February 2002, the Company was advised by the U.S. Environmental Protection Agency (EPA) that it considers some of the Company's remediation activities at the York facility to be subject to the EPA's corrective action program under the Resource Conservation and Recovery Act (RCRA) and offered the Company the option of addressing corrective action under a RCRA facility lead agreement. In July 2005, the York facility was designated as the first site in Pennsylvania to be addressed under the "One Cleanup Program." The program provides a more streamlined and efficient oversight of voluntary remediation by both PADEP and EPA and will be carried out consistent with the Agreement with the Navy. As a result, the RCRA facility lead agreement has been superseded.

Although the RI/FS is still under way and substantial uncertainty exists concerning the nature and scope of the additional environmental investigation and remediation that will ultimately be required at the York facility, the Company estimates that its share of the future Response Costs at the York facility will be approximately \$7.0 million. The Company has established reserves for this amount, which are included in Accrued Expenses and Other Liabilities in the Consolidated Balance Sheets.

The estimate of the Company's future Response Costs that will be incurred at the York facility is based on reports of independent environmental consultants retained by the Company, the actual costs incurred to date, and the estimated costs to complete the necessary investigation and remediation activities. Response Costs related to the remediation of soil are expected to be incurred over a period of several years ending in 2010. Response Costs related to ground water remediation may continue for some time beyond 2010. However, these Response Costs are expected to be much lower than those related to the remediation of soil.

Under the terms of the sale of the Commercial Vehicles Division in 1996, the Company has agreed to indemnify Utilimaster Corporation, until 2008, for certain claims related to environmental contamination present at the date of sale, up to \$20 million. Based on the environmental studies performed the Company does not expect to incur any material expenditures under this indemnification.

Product Liability Matters

Additionally, the Company is involved in product liability suits related to the operation of its business. The Company accrues for claim exposures that are probable of occurrence and can be reasonably estimated. The Company also maintains insurance coverage for product liability exposures. The Company believes that its accruals and insurance coverage are adequate and that product liability will not have a material adverse effect on the Company's Consolidated Financial Statements.

7. Employee Benefit Plans and Other Postretirement Benefits

The Company has several defined benefit pension plans and several postretirement healthcare benefit plans, which cover substantially all employees of the Motorcycles segment. The Company also has unfunded supplemental employee retirement plan agreements (SERPA) with certain employees which were instituted to replace benefits lost under the Tax Revenue Reconciliation Act of 1993.

Pension benefits are based primarily on years of service and, for certain plans, levels of compensation. Employees are eligible to receive postretirement healthcare benefits upon attaining age 55 after rendering at least 10 years of service to the Company. Some of the plans require employee contributions to offset benefit costs.

OBLIGATIONS AND FUNDED STATUS: The information following provides detail of changes in the benefit obligations, changes in the fair value of plan assets and funded status as of the Company's September 30 measurement date:

(in thousands)	PENSION AND SERPA		POSTRETIREMENT HEALTHCARE BENEFITS	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation, October 1	\$ 816,998	\$ 711,357	\$ 241,345	\$ 250,863
Service cost	40,371	36,863	10,536	11,367
Interest cost	49,944	45,852	14,738	14,994
Plan amendments	—	—	—	(22,366)
Actuarial losses (gains)	100,726	39,024	42,256	(4,870)
Plan participant contributions	6,627	6,524	107	43
Benefits paid	(50,842)	(22,622)	(10,642)	(8,686)
Benefit obligation, September 30	963,824	816,998	298,340	241,345
Change in plan assets:				
Fair value of plan assets, October 1	712,183	650,428	—	—
Actual return on plan assets	70,886	76,141	7,011	—
Company contributions	183,384	1,712	112,785	8,643
Plan participant contributions	6,627	6,524	107	43
Benefits paid	(50,842)	(22,622)	(10,642)	(8,686)
Fair value of plan assets, September 30	922,238	712,183	109,261	—
Funded status of the plans:				
Benefit obligation over plan assets	(41,586)	(104,815)	(189,079)	(241,345)
Unrecognized prior service cost	47,924	54,959	(10,524)	(11,841)
Unrecognized net loss	336,070	257,227	135,723	101,042
Minimum pension liability:				
Intangible asset	—	(22,043)	—	—
Accumulated other comprehensive loss	(3,162)	(100,340)	—	—
Prepaid (accrued) benefit cost, September 30	339,246	84,988	(63,880)	(152,144)
Fourth quarter contributions	241	155	2,905	2,296
Prepaid (accrued) benefit cost, December 31	\$ 339,487	\$ 85,143	\$ (60,975)	\$ (149,848)
Amounts recognized in the Consolidated Balance Sheets, December 31:				
Accrued benefit liability (other long-term liabilities)	\$ (28,678)	\$ (48,179)	\$ (60,975)	\$ (149,848)
Prepaid benefit cost (other long-term assets)	368,165	133,322	—	—
Net amount recognized	\$ 339,487	\$ 85,143	\$ (60,975)	\$ (149,848)

BENEFIT COSTS: Components of net periodic benefit costs for the years ended December 31:

(in thousands)	PENSION AND SERPA			POSTRETIREMENT HEALTHCARE BENEFITS		
	2005	2004	2003	2005	2004	2003
Service cost	\$ 40,371	\$ 36,863	\$ 35,282	\$ 10,536	\$ 11,367	\$ 12,145
Interest cost	49,944	45,852	41,979	14,738	14,994	13,462
Expected return on plan assets	(62,566)	(59,193)	(39,500)	(4,430)	—	—
Amortization of unrecognized:						
Prior service cost	7,036	7,081	7,098	(1,317)	(1,025)	546
Net loss	13,060	10,145	9,609	4,994	5,691	4,296
Net periodic benefit cost	\$ 47,845	\$ 40,748	\$ 54,468	\$ 24,521	\$ 31,027	\$ 30,449

ASSUMPTIONS: Weighted-average assumptions used to determine benefit obligations as of September 30 and weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	PENSION AND SERPA			POSTRETIREMENT HEALTHCARE BENEFITS		
	2005	2004	2003	2005	2004	2003
Assumptions for benefit obligations:						
Discount rate	5.50%	6.25%	6.50%	5.50%	6.25%	6.50%
Rate of compensation	3.20%	3.50%	4.00%	n/a	n/a	n/a
Assumptions for net periodic benefit cost						
Discount rate	6.25%	6.50%	6.50%	6.25%	6.50%	6.50%
Expected return on plan assets	8.50%	8.50%	8.50%	8.50%	n/a	n/a
Rate of compensation increase	3.50%	4.00%	5.00%	n/a	n/a	n/a

PENSION AND SERPA ACCUMULATED BENEFIT OBLIGATION:

Each of the Company's pension and SERPA plans has a separately determined accumulated benefit obligation (ABO) and plan asset value. The ABO is the actuarial present value of benefits based on service rendered and current and past compensation levels. This differs from the projected benefit obligation (PBO) in that it includes no assumption about future compensation levels. The total ABO for all the Company's pension and SERPA plans combined was \$886.0 million and \$719.7 million as of September 30, 2005 and 2004, respectively.

The following table summarizes information related to Company pension plans with an ABO or PBO in excess of the fair value of plan assets as of September 30:

(in millions)	2005	2004
Pension plans with ABOs in excess of fair value of plan assets:		
ABO	none	\$270.2
Fair value of plan assets	none	\$268.2
Number of plans	none	1
Pension plans with PBOs in excess of fair value of plan assets:		
PBO	\$591.5	\$510.3
Fair value of plan assets	\$568.0	\$458.9
Number of plans	2	2

The Company's SERPA plans, which can only be funded as claims are paid, had projected and accumulated benefit obligations of \$31.1 million and \$27.7 million, respectively, as of September 30, 2005 and \$56.8 million and \$44.8 million, respectively, as of September 30, 2004.

PLAN ASSETS: The Company's asset allocations at September 30, 2005 and 2004, by asset category are as follows:

(in thousands)	PENSION		POSTRETIREMENT HEALTHCARE BENEFITS	
	2005	2004	2005	2004
Equity securities (excluding Company stock)	65%	71%	78%	—
Debt securities	11	14	11	—
Company common stock	7	11	—	—
Other	2	—	7	—
Cash	15	4	4	—
	100%	100%	100%	—

The Company employs a total return investment approach whereby a mix of equities and fixed-income investments is used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by maximizing investment returns within that prudent level of risk. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, and small and large capitalizations. The Company's targeted asset allocation ranges at September 30, 2005 as a percentage of total market value were as follows: equity securities, 60% to 80%; debt securities, 10% to 20%; other 10% to 15% and Company stock not to exceed 25%. Additionally, cash balances are maintained at levels adequate to meet near term plan expenses and benefit payments. The allocation of pension investments at September 30, 2005 was not reflective of the Company's targets as a result of a \$150.0 million contribution made on September 30, 2005 which had not been fully allocated from cash. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews.

The fair value of pension plan assets was approximately \$932.0 million and \$760.0 million as of December 31, 2005 and 2004, respectively. Included in the pension plan assets are 1,273,592 shares of the Company's common stock at December 31, 2005 and 2004. The market value of these shares at December 31, 2005 and 2004 was \$65.6 million and \$77.4 million, respectively. Company policy limits the value of its stock to 25% of the total value of plan assets.

The fair value of postretirement healthcare plan assets was \$111.0 million as of December 31, 2005.

The Company's overall expected long-term rate of return on assets is 8.5%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns adjusted to reflect the current view of the long-term investment market.

POSTRETIREMENT HEALTHCARE COST: The weighted-average healthcare cost trend rate used in determining the accumulated postretirement benefit obligation of the health care plans was as follows:

	2005	2004
Healthcare cost trend rate for next year	10.0%	12.0%
Rate to which the cost trend rate is assumed to decline (the ultimate rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2007

This healthcare cost trend rate assumption can have a significant effect on the amounts reported. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects:

(in thousands)	ONE PERCENT INCREASE	ONE PERCENT DECREASE
Total of service and interest cost components in 2005	\$ 824	\$ (725)
Accumulated benefit obligation as of September 30, 2005	\$15,616	\$(13,530)

FUTURE CONTRIBUTIONS AND BENEFIT PAYMENTS: Based on the Company's recent contributions to its pension and postretirement healthcare plans it does not expect to make additional contributions to further pre-fund these plans during 2006. During 2006, the Company expects to continue its practice of funding the SERPA and postretirement healthcare plans in amounts equal to benefits paid during the year. The expected benefit payments and Medicare subsidy receipts for the next five years and thereafter are as follows:

(in thousands)	PENSION BENEFITS	SERPA BENEFITS	POSTRETIREMENT HEALTHCARE BENEFITS	MEDICARE SUBSIDY RECEIPTS
2006	\$ 26,910	\$ 2,288	\$ 12,813	\$ 619
2007	29,940	2,149	14,739	703
2008	35,174	2,837	19,134	816
2009	40,227	3,365	21,114	943
2010	43,083	4,132	22,384	1,080
2011-2015	267,009	22,411	128,443	7,938

DEFINED CONTRIBUTION PLANS: The Company has various defined contribution benefit plans that in total cover substantially all full-time employees. Employees can make voluntary contributions in accordance with the provisions of their respective plan, which includes a 401(k) tax deferral option. The Company expensed \$7.5 million, \$8.2 million and \$7.8 million for matching contributions during 2005, 2004 and 2003, respectively.

8. Capital Stock

COMMON STOCK: The Company is authorized to issue 800,000,000 shares of common stock of \$.01 par value. There were 274.0 million and 294.3 million common shares outstanding as of December 31, 2005 and 2004, respectively.

During 2005 and 2004, the Company repurchased 21.4 million and 10.6 million shares of its common stock at weighted-average prices of \$49 and \$53, respectively. These repurchases were made pursuant to the following authorizations:

(in millions of shares)	SHARES REPURCHASED 2005	2004	AUTHORIZATION REMAINING AT DECEMBER 31, 2005
Board of Directors' authorization			
1990 Authorization	—	7.8	—
1997 Authorization	1.4	2.8	3.1
2004 Authorization	20.0	—	—
2005 Authorization	—	—	20.0
Total	21.4	10.6	23.1

1990 Authorization

The Company had a separate authorization from the Company's Board of Directors originally approved in 1990. The original authorization provided for the repurchase of 16 million shares of common stock (adjusted for two 2-for-1 stock splits) and contained no dollar limit or expiration date. As of the completion of the 2004 repurchases there were no remaining shares available under this authorization.

1997 Authorization

The Company has an authorization from its Board of Directors (originally adopted in December 1997) to repurchase shares of its outstanding common stock under which the cumulative number of shares repurchased, at the time of any repurchase, shall not exceed the sum of (1) the number of shares issued in connection with the exercise of stock options occurring on or after January 1, 2004, plus (2) 1% of the issued and outstanding common stock of the Company on January 1 of the current year, adjusted for any stock split.

2004 Authorization

In 2004, the Company received a separate authorization from its Board of Directors which provided for the repurchase of up to 20.0 million shares of its common stock (adjusted for two 2-for-1 stock splits) and contained no dollar limit or expiration date. This authorization was exhausted during 2005.

2005 Authorization

On April 30, 2005, the Company's Board of Directors separately authorized the Company to buy back up to 20.0 million shares of its common stock with no dollar limit or expiration date. No repurchases have been made under this authorization as of the end of 2005.

PREFERRED STOCK: The Company is authorized to issue 2,000,000 shares of preferred stock of \$1.00 par value. The Company has designated 500,000 of the 2,000,000 authorized shares of preferred stock as Series A Junior Participating preferred stock (Preferred Stock). The Preferred Stock has a par value of \$1 per share. Each share of Preferred Stock, none of which is outstanding, is entitled to 10,000 votes per share (subject to adjustment) and other rights such that the value of a one ten-thousandth interest in a share of Preferred Stock should approximate the value of one share of common stock.

The Preferred Stock is reserved for issuance in connection with the Company's outstanding Preferred Stock purchase rights (Rights). On February 17, 2000, the Board of Directors of the Company declared a dividend of one Right for each outstanding share of common stock payable upon the close of business on August 20, 2000 to the shareholders of record on that date. Under certain conditions, each Right entitles the holder to purchase one ten-thousandth of a share of Preferred Stock at an exercise price of \$175, subject to adjustment. The Rights are only exercisable if a person or group has: (1) acquired 15% or more of the outstanding common stock or (2) has announced an intention to acquire 25% or more of the outstanding common stock (either (1) or (2) are a "Triggering Event"). If there is a 15% acquiring party, then each holder of a Right, other than the acquiring party, will be entitled to purchase, at the exercise price, Preferred Stock having a market value of two times the exercise price.

In addition, prior to the acquisition of 50% or more of the outstanding common stock by an acquiring party, the Board of Directors of the Company may exchange the Rights (other than the Rights of an acquiring party which have become void), in whole or in part, at an exchange ratio of one share of common stock or one ten-thousandth of a share of Preferred Stock (or a share of the Company's preferred stock having equivalent rights, privileges, and preferences) per Right, subject to adjustment. The Rights expire upon the close of business on August 20, 2010, subject to extension.

9. Stock Compensation

The Company has a stock compensation plan which was approved by its Shareholders in April 2004 (Plan) under which the Board of Directors may grant to employees nonqualified stock options and shares of nonvested stock. The options granted under the Plan have an exercise price equal to the fair market value of the underlying stock at the date of grant and vest ratably over a four-year period with the first 25% becoming exercisable one year after the date of grant. The options expire 10 years from the date of grant. Shares of nonvested stock that have been issued under the Plan generally vest over periods ranging from 4 to 5 years with certain of the shares generally subject to accelerated vesting should the Company meet certain performance conditions. Dividends are paid on shares of nonvested stock. At December 31, 2005, there were 12.5 million shares of common stock available for future awards under the Plan.

STOCK OPTIONS: As discussed in Note 1, the Company adopted SFAS No. 123 (revised 2004) on January 1, 2005, which requires the Company to recognize the cost of its employee stock option awards in its income statement based on the fair value of the award. The Company estimates the fair value of its option awards granted after January 1, 2005, using a lattice-based option valuation model. The Company believes that the lattice-based option valuation model provides a more precise estimate of fair value than the Black-Scholes option pricing model used in prior years. Lattice-based option valuation models utilize ranges of assumptions over the expected term of the options. Expected volatilities are based on the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Assumptions used in calculating the lattice-based fair value of options granted during 2005 were as follows:

	2005
Expected average term (in years)	4.5
Expected volatility	16%–36%
Weighted-average volatility	30%
Expected dividend yield	0.8%
Risk-free rate	2.4%–4.1%

The following table summarizes the stock option transactions for the years ended December 31:

	2005		2004		2003	
(in thousands except for per share amounts)	OPTIONS	WEIGHTED-AVERAGE PRICE	OPTIONS	WEIGHTED-AVERAGE PRICE	OPTIONS	WEIGHTED-AVERAGE PRICE
Options outstanding at January 1	6,895	\$41	9,029	\$31	8,683	\$27
Options granted	905	\$60	1,419	\$52	1,652	\$41
Options exercised	(938)	\$33	(3,418)	\$18	(1,191)	\$16
Options forfeited	(77)	\$51	(135)	\$47	(115)	\$44
Options outstanding at December 31	6,785	\$45	6,895	\$41	9,029	\$31
Exercisable at December 31	4,159	\$40	3,482	\$35	5,561	\$23
Weighted-average fair value of options granted during the year	\$16		\$17		\$14	

The following table summarizes the aggregate intrinsic value related to options outstanding, exercisable and exercised as of and for the years ended December 31:

(in thousands)	2005	2004	2003
Exercised	\$23,355	\$135,752	\$ 34,057
Outstanding	\$46,564	\$135,652	\$151,290
Exercisable	\$47,594	\$ 94,974	\$137,393

The Company's policy is to issue new shares of common stock upon the exercise of employee stock options. The Company has a continuing authorization from its Board of Directors to repurchase shares to offset dilution caused by the exercise of stock options, see Note 8.

Stock options outstanding at December 31, 2005

(options in thousands):

PRICE RANGE	WEIGHTED-AVERAGE CONTRACTUAL LIFE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
\$9	0.1	31	\$ 9
\$10.01 to \$20	1.9	317	13
\$20.01 to \$30	3.2	413	26
\$30.01 to \$40	4.3	709	35
\$40.01 to \$50	6.5	2,194	42
\$50.01 to \$60	7.3	2,330	52
\$60.01 to \$70	9.1	791	61
Options Outstanding	6.3	6,785	45
Options Exercisable	5.3	4,159	40

NONVESTED STOCK: The fair value of nonvested shares is determined based on the market price of the Company's shares on the grant date. A summary of the status of the Company's nonvested shares as of December 31, 2005, and changes during the year ended December 31, 2005, is as follows:

(shares in thousands)	SHARES	FAIR VALUE PER SHARE
Nonvested at January 1	—	—
Granted	115	\$60
Vested	—	—
Forfeited	(3)	\$60
Nonvested at December 31	112	\$60

As of December 31, 2005, there was \$4.2 million of unrecognized compensation cost related to nonvested stock that is expected to be recognized over a weighted-average period of 3.1 years.

10. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31:

(in thousands, except per-share amounts)	2005	2004	2003
Numerator:			
Net income used in computing basic and diluted earnings per share	\$959,604	\$889,766	\$760,928
Denominator:			
Denominator for basic earnings per share—weighted-average common shares	280,303	295,008	302,271
Effect of dilutive securities—employee stock compensation plan	732	1,844	2,199
Denominator for diluted earnings per share—adjusted weighted-average shares outstanding	281,035	296,852	304,470
Basic earnings per share	\$ 3.42	\$ 3.02	\$ 2.52
Diluted earnings per share	\$ 3.41	\$ 3.00	\$ 2.50

Options to purchase 2.6 million shares of common stock outstanding during 2005 were not included in the Company's computation of dilutive securities because the exercise price was greater than the market price and therefore the effect would have been anti-dilutive.

11. Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, marketable securities, trade receivables, finance receivables, finance receivables held for sale, trade payables, finance debt, foreign currency contracts and interest rate swaps.

CASH AND CASH EQUIVALENTS, TRADE RECEIVABLES, AND TRADE PAYABLES: The book values for these amounts are estimated to approximate their respective fair values due to the short maturity of these instruments.

MARKETABLE SECURITIES: The carrying value of marketable securities approximates fair value. The fair value of marketable securities is based primarily on quoted market prices. Changes in fair value are recorded, net of tax, as other comprehensive income and included as a component of shareholder's equity.

FINANCE RECEIVABLES, NET: The carrying value of retail finance receivables approximates fair value. The carrying value of wholesale finance receivables approximates fair value because they are either short-term or have interest rates that adjust with changes in market interest rates.

The fair value of investment in retained securitization interests is estimated based on the present value of future expected cash flows using management's best estimates of the key assumptions. Changes in fair value are recorded, net of tax, as other comprehensive income and included as a component of shareholder's equity.

FINANCE RECEIVABLES HELD FOR SALE: The carrying value of finance receivables held for sale approximates fair value as finance receivables held for sale are held for only a short period of time prior to being securitized.

FINANCE DEBT: The carrying value of debt provided under the credit facilities approximates fair value since the interest rates charged under this facility are tied directly to market rates and fluctuate as market rates change. The carrying value of commercial paper approximates fair value due to their short maturity.

Medium-term notes are carried at fair value and include a fair value adjustment due to the interest rate swap agreement which effectively converts the majority of the notes from a fixed to a floating interest rate.

The carrying value of senior subordinated notes approximates fair value and is estimated based upon rates currently available for debt with similar terms and remaining maturities.

FOREIGN CURRENCY CONTRACTS: During 2005 and 2004, the Company utilized foreign currency contracts to hedge its sales transactions denominated in the euro. The foreign currency contracts were designated as cash flow hedges and generally had lives less than one year. The Company bases the fair value of its foreign currency contracts on quoted market prices. Information related to the Company's foreign currency contracts as of December 31 is as follows:

(in millions)	2005	2004
Euro value	€ 150.0	€ 235.0
Notional U.S. dollar value	\$ 186.9	\$ 284.7
Fair value of contracts recorded as current assets (liabilities)	\$ 7.7	\$ (34.7)
Unrealized gain (loss) recorded in accumulated other comprehensive income (loss), net of tax	\$ 4.1	\$ (20.4)

During 2005 and 2004, the hedges were highly effective and, as a result, the amount of hedge ineffectiveness recognized during the year was insignificant. The total net unrealized loss, net of taxes, related to foreign currency contracts reclassified to earnings during 2005 was \$5.4 million. The Company expects that the unrealized gains, net of taxes, as of December 31, 2005, of \$4.1 million will be reclassified to earnings within one year.

INTEREST RATE SWAPS—SECURITIZATION TRANSACTIONS: During 2005 and 2004, HDFS utilized interest rate swaps to reduce the impact of fluctuations in interest rates on its securitization transactions. These interest rate derivatives are designated as cash flow hedges and generally have a life of less than six months. Information related to these swap agreements as of December 31 is as follows:

(in millions)	2005	2004
Notional value	\$226.2	\$323.0
Fair value of swaps recorded as current (liabilities) assets	\$ (0.4)	\$ 0.9
Unrealized (loss) gain recorded in accumulated other comprehensive income (loss), net of tax	\$ (0.2)	\$ 0.5

During 2005 and 2004, the hedges were highly effective and, as a result, the amount of hedge ineffectiveness recognized during the year was insignificant. Unrealized gains of \$0.5 million, net of taxes, as of December 31, 2004, were reclassified to earnings during 2005 upon the sale of the respective retail motorcycle loans. HDFS expects to reclassify \$0.2 million of the unrealized losses, net of taxes, as of December 31, 2005, to earnings within one year when HDFS completes a securitization of retail motorcycle loans.

INTEREST RATE SWAPS — COMMERCIAL PAPER: HDFS has entered into interest rate swap agreements that effectively convert a portion of its floating-rate debt to a fixed-rate basis for periods of four years, ending in 2007 and 2008. The differential paid or received on these swaps is recognized on an accrual basis as an adjustment to interest expense. As of December 31, 2005 and 2004, the agreements were designated as cash flow hedges. Information related to the swap agreements as of December 31 is as follows:

(in millions)	2005	2004
Notional value	\$200.0	\$200.0
Fair value of swap recorded as current assets	\$ 7.6	\$ 5.8
Unrealized gain recorded in accumulated other comprehensive income (loss), net of tax	\$ 4.8	\$ 3.7

During 2005 and 2004, the hedges were highly effective, and as a result, the amount of hedge ineffectiveness recognized during the year was insignificant. Unrealized gains of \$1.2 million, net of taxes, as of December 31, 2004, were reclassified to earnings during 2005 upon payment of the related interest. HDFS expects to reclassify \$3.0 million of the unrealized gains, net of taxes, as of December 31, 2005, to earnings within one year. The unrealized gains will be offset by the payment of variable interest associated with the floating rate debt.

INTEREST RATE SWAPS — MEDIUM-TERM NOTES: During 2005 and 2003, HDFS entered into interest rate swap agreements that effectively convert a portion of its fixed-rate debt to a floating-rate basis for a period of five years. The differential paid or received on these swaps is recognized on an accrual basis as an adjustment to interest expense. As of December 31, 2005 and 2004, the agreements were designated as fair value hedges. During 2005 and 2004, the hedges were highly effective and, as a result, there was no ineffectiveness recognized on these hedges during the year. Information related to these swap agreements as of December 31 is as follows:

(in millions)	2005	2004
Notional value	\$550.0	\$400.0
Fair value of swap recorded as current liabilities	\$ (14.7)	\$ (5.0)

No ready market exists for swaps utilized by HDFS. Fair value is determined by an independent third party using established valuation methods.

12. Business Segments and Foreign Operations

BUSINESS SEGMENTS: The Company operates in two business segments: Motorcycles and Financial Services. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately based on the fundamental differences in their operations.

The Motorcycles segment consists primarily of the group of companies doing business as Harley-Davidson Motor Company and Buell Motorcycle Company. The Motorcycles segment designs, manufactures and sells primarily heavyweight (engine displacement of 651+cc) touring, custom and sport motorcycles and a broad range of related products which include motorcycle parts and accessories and riding apparel.

The Financial Services segment consists of Harley-Davidson Financial Services. HDFS provides wholesale and retail financing and insurance programs primarily to Harley-Davidson and Buell dealers and customers. HDFS conducts business in the United States, Canada and Europe.

Information by industry segment is set forth below for the years ended December 31:

(in thousands)	2005	2004	2003
Motorcycles net revenue and Financial Services income:			
Motorcycles net revenue	\$5,342,214	\$5,015,190	\$4,624,274
Financial Services income	331,618	305,262	279,459
	\$5,673,832	\$5,320,452	\$4,903,733
Income from operations:			
Motorcycles	\$1,299,865	\$1,189,519	\$ 996,889
Financial Services	191,620	188,600	167,873
General corporate expenses	(21,474)	(16,628)	(15,498)
	\$1,470,011	\$1,361,491	\$1,149,264

Information by industry segment is set forth below as of December 31:

(in thousands)	MOTORCYCLES	FINANCIAL SERVICES	CORPORATE	CONSOLIDATED
2005				
Identifiable assets	\$1,845,802	\$2,363,235	\$1,046,172	\$5,255,209
Depreciation	198,833	6,872	-	205,705
Net capital expenditures	188,078	10,311	-	198,389
2004				
Identifiable assets	\$1,646,251	\$2,223,796	\$1,613,246	\$5,483,293
Depreciation	206,420	7,536	156	214,112
Net capital expenditures	188,122	25,171	257	213,550
2003				
Identifiable assets	\$1,778,566	\$1,821,142	\$1,323,380	\$4,923,088
Depreciation	191,118	5,555	245	196,918
Net capital expenditures	219,592	7,263	375	227,230

GEOGRAPHIC INFORMATION: Included in the Consolidated Financial Statements are the following amounts relating to geographic locations for the years ended December 31:

(in thousands)	2005	2004	2003
Motorcycles net revenue ^(a) :			
United States	\$4,304,865	\$4,097,882	\$3,807,707
Europe	530,124	477,962	419,052
Japan	192,268	192,720	173,547
Canada	143,204	136,721	134,319
Other foreign countries	171,753	109,905	89,649
	\$5,342,214	\$5,015,190	\$4,624,274
Financial Services income ^(a) :			
United States	\$ 308,341	\$ 283,837	\$ 260,551
Europe	9,135	9,538	8,834
Canada	14,142	11,887	10,074
	\$ 331,618	\$ 305,262	\$ 279,459
Long-lived assets ^(b) :			
United States	\$1,450,278	\$1,246,808	\$1,400,772
Other foreign countries	38,002	44,300	41,804
	\$1,488,280	\$1,291,108	\$1,442,576

(a) Net revenue and income is attributed to geographic regions based on location of customer.

(b) Long-lived assets include all long-term assets except those specifically excluded under SFAS No. 131, such as deferred income taxes and finance receivables.

13. Related Party Transactions

The Company has the following material related party transactions. A director of the Company is Chairman and Chief Executive Officer and an equity owner of Fred Deeley Imports Ltd. (Deeley Imports), the exclusive distributor of the Company's motorcycles in Canada. During 2005, 2004 and 2003, the Company recorded revenue and financial services income from Deeley Imports of \$145.1 million, \$137.6 million and \$135.2 million, respectively, and had accounts receivables balances due from Deeley Imports of \$14.8 million and \$13.1 million at December 31, 2005 and 2004, respectively. All such products were provided in the ordinary course of business at prices and on terms and conditions that the Company believes are the same as those that would result from arm's-length negotiation between unrelated parties.

Supplementary Data

Quarterly financial data (unaudited) (in millions, except per-share data)

	1ST QUARTER		2ND QUARTER		3RD QUARTER		4TH QUARTER	
	Mar. 27, 2005	Mar. 28, 2004	June 26, 2005	June 27, 2004	Sep. 25, 2005	Sep. 26, 2004	Dec. 31, 2005	Dec. 31, 2004
Net revenue	\$1,235.5	\$1,165.7	\$1,333.3	\$1,327.8	\$1,431.2	\$1,300.7	\$1,342.2	\$1,221.0
Gross profit	464.3	440.1	500.4	503.4	561.3	494.6	514.5	461.4
Income before taxes	352.3	317.2	368.0	383.3	410.8	355.0	356.7	323.9
Net income	\$ 227.2	\$ 204.6	\$ 237.4	\$ 247.2	\$ 265.0	\$ 229.0	\$ 230.0	\$ 209.0
Earnings per common share:								
Basic	\$.78	\$.69	\$.85	\$.84	\$.97	\$.78	\$.84	\$.71
Diluted	\$.77	\$.68	\$.84	\$.83	\$.96	\$.77	\$.84	\$.71

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HARLEY-DAVIDSON, INC.: We have audited management's assessment, included in the accompanying Management's Report on Internal Controls over Financial Reporting, that Harley-Davidson, Inc. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Harley-Davidson, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Harley-Davidson, Inc. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Harley-Davidson, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005 of Harley-Davidson, Inc. and our report dated February 8, 2006 expressed an unqualified opinion thereon.

Ernst + Young LLP

Milwaukee, Wisconsin
February 8, 2006

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HARLEY-DAVIDSON, INC.: We have audited the accompanying consolidated balance sheets of Harley-Davidson, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

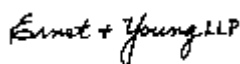
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harley-Davidson, Inc. at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, on January 1, 2005, the Company changed its method of accounting for share-based awards.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States),

the effectiveness of Harley-Davidson, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2006 expressed an unqualified opinion thereon.

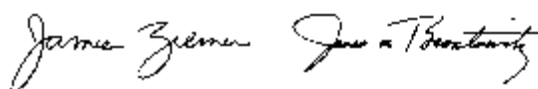


Milwaukee, Wisconsin
February 8, 2006

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's evaluation under the framework in *Internal Control—Integrated Framework*, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2005. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

February 8, 2006



James L. Ziemer
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

James M. Brostowitz
VICE PRESIDENT, TREASURER AND
ACTING CHIEF FINANCIAL OFFICER

Management Certifications

The Company has filed as exhibits to its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the Securities and Exchange Commission, the certifications of the chief executive officer and the chief financial officer of the Company required by Section 302 of the Sarbanes-Oxley Act.

The Company has submitted to the New York Stock Exchange the Annual Chief Executive Officer Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

Report of the Audit Committee

The Audit Committee of the Board of Directors reviews the Company's financial reporting process, the audit process and the process for monitoring compliance with laws and regulations. All of the Audit Committee members are independent in accordance with the Audit Committee requirements of the New York Stock Exchange, Inc.

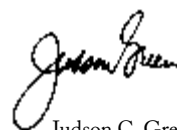
The Audit Committee of the Board of Directors has reviewed and discussed with management its assessment of the effectiveness of the Company's internal control system over financial reporting as of December 31, 2005. Management has concluded that the internal control system was effective. This assessment was also audited by Ernst & Young LLP, the Company's independent registered public accounting firm for the 2005 fiscal year. The audited financial statements of the Company for the 2005 fiscal year were also reviewed and discussed with management as well as with representatives of Ernst & Young LLP. The Audit Committee has also discussed with Ernst & Young LLP, the matters required to be discussed by Statement of Auditing Standards No. 61, other professional standards and regulatory requirements currently in effect. The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, as currently in effect, and has discussed with representatives of Ernst & Young LLP the independence of Ernst & Young LLP. Based on the review and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements for the 2005 fiscal year be included in the Company's Annual Report.

February 14, 2006

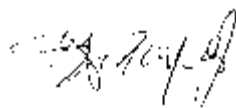
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS



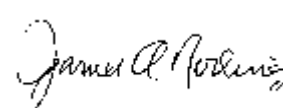
Richard I. Beattie



Judson C. Green



George L. Miles, Jr.



James A. Norling
CHAIRMAN

This LEGEND GROWS *through* LEVERAGING

KNOWLEDGE & EXPERIENCE

2005 BOARD OF DIRECTORS



BARRY K. ALLEN: Mr. Allen is Executive Vice President of Operations of Qwest Communications International Inc., a broadband Internet-based communications company. He also is President of Allen Enterprises, LLC, a private equity investment and management company. Mr. Allen has been a director of Harley-Davidson since 1992.



RICHARD I. BEATTIE: Mr. Beattie is Chairman of the law firm Simpson Thacher & Bartlett LLP. He is an expert in corporate governance issues, serving as counsel to numerous boards and non-management directors. Mr. Beattie has been a director of Harley-Davidson since 1996.



JEFFREY L. BLEUSTEIN: Mr. Bleustein is Chairman of the Board of Directors of Harley-Davidson, Inc. He retired as President and CEO of Harley-Davidson, Inc. April 30, 2005. Prior to retirement, he served in numerous leadership positions with Harley-Davidson for 30 years. Mr. Bleustein has been a director of Harley-Davidson since 1996.



GEORGE H. CONRADES: Mr. Conrades is Executive Chairman of Akamai Technologies, Inc., a provider of secure, outsourced e-business infrastructure services and software. Mr. Conrades also is a partner with Polaris Venture Partners, an early-stage investment company. He has been a director of Harley-Davidson since 2002.



JUDSON C. GREEN: Mr. Green is President and Chief Executive Officer of NAVTEQ Corporation, a leading provider of comprehensive digital map information for automotive navigation systems, mobile navigation devices and Internet-based mapping applications. He has been a director of Harley-Davidson since 2004.



DONALD A. JAMES: Mr. James is a co-founder, an equity owner and serves as Chairman and Chief Executive Officer of Deeley Harley-Davidson Canada/Fred Deeley Imports Ltd., the largest independent motorcycle distributorship in Canada and the exclusive distributor of Harley-Davidson and Buell motorcycles there. He has been a director of Harley-Davidson since 1991.



SARA L. LEVINSON: Ms. Levinson is ChairMom of ClubMom, Inc., a consumer relationship management company. She previously served as President of the Women's Group of Rodale, Inc., the world's leading publisher of information on healthy, active lifestyles. Ms. Levinson has been a director of Harley-Davidson since 1996.



GEORGE L. MILES, JR.: Mr. Miles is President and Chief Executive Officer of WQED Multimedia, the public broadcaster for southwestern Pennsylvania. He also is a certified public accountant. Mr. Miles has been a director of Harley-Davidson since 2002.



JAMES A. NORLING: Mr. Norling is Chairman of the Board of Directors of Chartered Semiconductor Manufacturing Ltd., a semiconductor manufacturer. He is retired from Motorola, Inc., a manufacturer of electronics, where he last served as Executive Vice President of Motorola, Inc. and President of its Personal Communications Sector. Mr. Norling has been a director of Harley-Davidson since 1993.



JAMES L. ZIEMER: Mr. Ziemer is President and Chief Executive Officer of Harley-Davidson, Inc. He also serves as President of The Harley-Davidson Foundation, Inc. His career at Harley-Davidson spans more than 36 years. Mr. Ziemer has been a director of Harley-Davidson since 2004.

Committee Functions and Responsibility

The Board has determined that all current directors, other than Messrs. Bleustein, James and Ziemer, qualify as independent directors of the Company under the rules of the New York Stock Exchange, Inc. To assist it in making determinations of independence, the Board adopted a categorical standard which is set forth in its entirety under the heading “Independence of Directors” in the Company’s 2006 Notice of Annual Meeting and Proxy Statement (“Proxy Statement”) that accompanies this Annual Report. The Board determined that the directors who qualify as independent had no relationship with the Company that would preclude them from qualifying as an independent director under the categorical standard. The Board has concluded that all directors that the Board considers independent either meet this standard or have no relationship with the Company.

The Board has three committees: the Audit Committee, the Human Resources Committee, and the Nominating and Corporate Governance Committee. The charter for each of the Committees is published on the Corporate Governance page of the Company’s website.

AUDIT COMMITTEE: For 2005, the Audit Committee members were directors Richard I. Beattie, Judson C. Green, George L. Miles, Jr. and James A. Norling (Chairman).

The Audit Committee charter provides, among other things, that the Audit Committee assist the Board in fulfilling their oversight responsibility relating to: (1) the integrity of the Company’s financial statements and the financial reporting process; (2) the systems of internal controls over financial reporting; (3) the approval of the Financial Code of Ethics; (4) the internal audit function; (5) the retention, compensation and termination of the independent auditors; (6) the annual independent audit of the Company’s financial statements; (7) the independent auditors’ qualifications and independence; and (8) the Company’s compliance with legal and regulatory requirements.

The Board has determined that all members of the Audit Committee are independent and financially literate in accordance with the audit committee requirements of the New York Stock Exchange. The Board has determined that Messrs. Green and Miles are audit committee financial experts within the meaning of Securities and Exchange Commission requirements. The functions of the Audit Committee and its activities during fiscal year 2005 are discussed in more detail under the heading “Audit Committee Report” in the Company’s Proxy Statement.

HUMAN RESOURCES COMMITTEE: During 2005, the members of the Human Resources Committee were directors Barry K. Allen, George H. Conrades (Chairman) and Sara L. Levinson.

The Human Resources Committee charter provides, among other things, that the Human Resources Committee: (1) review the annual performance of the Chief Executive Officer (“CEO”) with input from the independent directors of the Board and make recommendations to the independent directors about the CEO’s total compensation; (2) review overall compensation plans for executive officers and other employees and produce an annual report on compensation for inclusion in the Company’s proxy statement in accordance with applicable rules and regulations; (3) review and recommend all equity-based compensation plans; (4) evaluate Company management performance overall and provide recommendations regarding management successors; (5) review potential conflicts of interest and any other potential Code of Business Conduct violations by the Company’s executive officers (other than the CEO); and (6) review the disclosure of any waivers of such conflicts or other Code of Business Conduct violations for executive officers (other than the CEO).

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE: For 2005, the members of the Nominating and Corporate Governance Committee (the “Nominating Committee”) were directors Barry K. Allen (Chairman), Richard I. Beattie, George H. Conrades, Judson C. Green, Sara L. Levinson, George L. Miles, Jr. and James A. Norling. The Nominating Committee consists of all of the independent directors of the Board.

The Nominating Committee charter provides, among other things, that the Nominating Committee: (1) identify and make recommendations to the Board on individuals qualified to serve as Board members of the Company consistent with the criteria approved by the Board; (2) identify and make recommendations to the Board on individuals qualified to serve as the Chief Executive Officer of the Company; (3) review and recommend the renomination of incumbent directors; (4) review and recommend committee appointments; (5) lead the Board in its annual review of the Board’s and its committees’ performance; (6) approve goals and objectives for the CEO and review the CEO’s annual performance; (7) review and approve the CEO’s total compensation as recommended by the Human Resources Committee; (8) review and approve the Company’s Code of Business Conduct; (9) establish a process for review of potential conflicts of interest; (10) review potential conflicts of interest and any other potential Code of Business Conduct violations by the Company’s CEO or directors; (11) review the disclosure of any waivers of such conflicts or other Code of Business Conduct violations for the Company’s CEO or directors; (12) review and reassess annually the Corporate Governance Policy applicable to the Company and recommend any proposed changes to the Board for approval; (13) take a leadership role in shaping the corporate governance of the Company; and (14) perform other related tasks such as studying and making recommendations to the Board concerning the size, committee structure, compensation or meeting frequency of the Board.

BOARD MEETINGS: The Board has five regularly scheduled meetings per year and met five times during 2005. In addition, the Board met several times in executive sessions during all of these meetings, without management present. In April 2005, non-management members of the Board re-elected Barry K. Allen Presiding Director. Mr. Allen will continue to serve as Presiding Director until his successor is elected or until his earlier resignation or removal. The Presiding Director is responsible for chairing the executive sessions.

COMMUNICATION WITH THE BOARD: All current members of the Company’s Board of Directors are listed in this Annual Report and on the Corporate Governance page of the Company’s website. Shareholders and other parties interested in communicating with the Presiding Director or with any non-management director may do so by writing to that director, care of the secretary of Harley-Davidson, Inc., at the address shown on the last page of this Annual Report or the Corporate Governance page of the Company’s website.

Shareholders may recommend director candidates for consideration by the Nominating Committee by writing to the chair of that committee in care of the Secretary of the Company. Such recommendations for the 2007 annual meeting of shareholders must be received by the Company on or before the date set forth in the Proxy Statement. The specific process regarding identifying and evaluating director candidates recommended by shareholders is set forth under the heading “Nominating and Corporate Governance Committee” in the Company’s Proxy Statement.

The Company has a Code of Business Conduct (“the Code”) that applies to all Company employees and directors. The Code is intended to promote honest and ethical conduct and to provide guidance for the appropriate handling of various business situations. Employees may anonymously report possible violations of the Code via toll-free number (800-238-0109) or in writing to the General Counsel of the Company. The Company also has a Financial Code of Ethics. Reports of possible violations of the Financial Code of Ethics may be made directly to the Chairman of the Audit Committee.

2005 CORPORATE OFFICERS, HARLEY-DAVIDSON, INC.

James L. Ziemer
President and Chief Executive Officer

James M. Brostowitz
*Vice President, Treasurer and
Acting Chief Financial Officer*

Gail A. Lione
*Vice President, General Counsel and Secretary
Chief Compliance Officer*

2005 MOTOR COMPANY LEADERSHIP

James L. Ziemer
Chief Executive Officer

Joanne M. Bischmann
Vice President, Marketing

David P. Bozeman
*General Manager,
Powertrain Operations, Capitol Drive*

James M. Brostowitz
Vice President, Treasurer

Leroy Coleman
Vice President, Advanced Operations

Rodney J. Copes
*Vice President and General Manager,
Powertrain Operations, Pilgrim Road*

Ruth M. Crowley
Vice President, General Merchandise

William B. Dannehl
*Vice President, North American Sales
and Dealer Services*

William G. Davidson
*Senior Vice President and
Chief Styling Officer*

Karl M. Eberle
*Vice President and General Manager,
Kansas City Operations*

Robert S. Farchione
*General Manager, Parts and Accessories**
**As of February 3, 2006*

Fred C. Gates
General Manager, York Operations

James E. Haney
Vice President and Chief Information Officer

Michael P. Heerhold
General Manager, Tomahawk

John A. Hevey
*Vice President, Strategic Planning and
New Business Development*

Timothy K. Hoelter
Vice President, Government Affairs

Ronald M. Hutchinson
Vice President

Michael D. Keefe
*Vice President; Director,
Harley Owners Group*

Kathleen A. Lawler
Vice President, Communication

Lara L. Lee
Vice President, Enthusiast Services

Matthew S. Levatic
Vice President, Materials Management

Gail A. Lione
Vice President, General Counsel and Secretary

James A. McCaslin
President and Chief Operating Officer

Jeffrey A. Merten
*Managing Director, Asia Pacific
and Latin America*

Louis N. Netz
Vice President and Director, Styling

John A. Olin
Vice President, Controller

Steven R. Phillips
*Vice President, Quality, Reliability
and Technical Service*

John K. Russell
*Vice President and Managing Director,
Harley-Davidson Europe*

Harold A. Scott
Vice President, Human Resources

W. Kenneth Sutton, Jr.
Vice President, Engineering

Jerry G. Wilke
*Vice President, Customer Relationships
and Motorcycle Product Planning*

2005 HARLEY-DAVIDSON FINANCIAL SERVICES LEADERSHIP

Lawrence G. Hund
*Vice President, Operations
and Chief Financial Officer*

Kathryn H. Marczak
*Vice President, Chief Credit
and Administrative Officer*

Donna F. Zarcone
President and Chief Operating Officer

2005 BUELL MOTORCYCLE COMPANY LEADERSHIP

Erik F. Buell
Chairman and Chief Technical Officer

Jon R. Flickinger
President and Chief Operating Officer

COMPANY INFORMATION

Harley-Davidson, Inc.
3700 West Juneau Avenue
P.O. Box 653
Milwaukee, Wisconsin 53201-0653
414-343-4680

Internet Addresses:
www.harley-davidson.com
www.buell.com

Plant Tour Information:
877-883-1450
York, Pa. *motorcycles*
Kansas City, Mo. *motorcycles*
Milwaukee, Wisc. *engines*

The following are among the trademarks
of H-D Michigan, Inc.: *Harley-Davidson*,
the Bar & Shield Logo, *MotorClothes*,
Harley Owners Group, *H.O.G.*, *Screamin' Eagle*,
Softail, *Sportster*, *Fat Boy*, *Super Glide*,
Heritage Softail, *Dyna*, *Night Rod*, *Street Rod*,
V-Rod, *Street Bob*, *Street Glide*, *Rider's Edge*,
FXRG, *Destroyer*, *Buell*, *Lightning* and *Ulysses*.

DUB, *NHRA*, *ESPN*, *Emerica* and *Primaloft*
are trademarks of their respective owners.

SHAREHOLDER INFORMATION

Annual Shareholder Meeting
*The Annual Meeting of Shareholders will
convene at 10:30 a.m., CT, on Saturday,
April 29, 2006, at the Pfister Hotel, 424 East
Wisconsin, Milwaukee, Wisconsin 53202.*

SEC Form 10-K
*A copy of the Annual Report to the Securities
and Exchange Commission on Form 10-K may
be obtained by shareholders from the Company
without charge via mail or via the Company's
website on or about March 15, 2006.*

Dividend Reinvestment and
Stock Purchase Plan
*To obtain information on our Dividend
Reinvestment and (byds) Buy Your Direct
Stock, please contact ComputerShare.
ComputerShare Trust Company
2 North LaSalle Street
Chicago, IL 60602
866-360-5339 toll-free*

Registrar and Transfer Agent
ComputerShare Investor Services, LLC
P.O. Box A3504
Chicago, IL 60690-3504
866-360-5339 toll-free
or 312-360-5339

Contact Investor Relations at:
877-HDSTOCK toll-free
414-343-4782, or try our e-mail:
investor.relations@harley-davidson.com

Corporate Governance Materials may
be obtained via our website at:
www.harley-davidson.com

Communication with the Board
c/o the Secretary of Harley-Davidson, Inc.
3700 West Juneau Avenue
P.O. Box 653
Milwaukee, WI 53201-0653

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PASSION *and* PURPOSE

Passion is our business. All of us—our 1,300 dealers, our 9,700 employees—share the passion. Our customers share the passion, too, as do all those who dream of owning a Harley-Davidson® or Buell® motorcycle.

Purpose is how we go about our business. Eyes on the horizon, hands steady at the controls, throttle wide open.

Harley-Davidson has thrived on its ability to meet the needs of a changing world for more than a century. Today, more than ever, we are boldly seizing the opportunity to attract new customers, go new places and grow our already-large presence in the world of motorcycling.

*Jim Ziemer, President and CEO,
Harley-Davidson, Inc.*

DESIGNING *their* DREAMS

Like never before, cutting-edge motorcycles are making the leap from idea to design parameters to computer to pavement, speaking to consumer desires for choice and self-expression.

*The 2006
FXDBI Dyna Street Bob™*



TOUCHING LIVES

There are endless ways to experience the Harley-Davidson way of life—in sight and sound and feel. It all adds up to high octane for the senses that reaches deep into the souls of people everywhere.

STRENGTH *in* EXECUTION EVERY DAY

Beyond the bikes and behind the customer experience stands the ability to execute well. In our offices, design studios and factories, and at dealerships globally, Harley-Davidson remains relentlessly focused on flawless execution.



Product Planning Director Bill Davidson (center) and Senior Vice President/Chief Styling Officer Willie G. Davidson (right) help build the first 35th Anniversary Dyna Super Glide®, Kansas City, June 2005.



GIVING BACK

Harley-Davidson's commitment to our communities extends far and wide, including 25 years as a national sponsor of the Muscular Dystrophy Association.

The RESULTS

At year-end, Harley-Davidson celebrated the exciting milestone of twenty consecutive years of record revenue, record earnings and record wholesale and retail motorcycle sales.

20 YEARS